EXHIBIT 1

vivendi

Annual Financial Report and Audited Consolidated Financial Statements for the Year Ended December, 31 2006

VIVENDI

Société anonyme with a Management Board and Supervisory Board with a share capital of €6,363,685,548

Head Office: 42 avenue de Friedland – 75380 PARIS CEDEX 08 – FRANCE

IMPORTANT NOTICE: READERS ARE STRONGLY ADVISED TO READ THE IMPORTANT DISCLAIMERS ON PAGE 63.

In accordance with European Commission regulation (EC) 809 /2004 of April 29, 2004 (Article 28) which sets out the disclosure obligations for issuers of securities on a regulated market in the European Union (The "Prospectus Directive"), the followings items are included as reference:

- The Consolidated Financial Statements as of December 31, 2005 prepared under French GAAP and the related report of independent registered public accounting firms are presented in pages 174 through 286 and in pages 172 through 173, respectively, of the Document de Référence n°D06-0178 filed with the French Autorité des Marchés Financiers (AMF) on March 28, 2006 and in pages 174 through 286 and in pages 172 through 173, respectively, of the English translation of the Document de Référence filed on Form 6-K with the SEC on May 31, 2006.
- The Consolidated Financial Statements as of December 31, 2004 prepared under French GAAP and the related report of independent registered public accounting firms are presented in pages 163 through 248 and in pages 161 through 162, respectively, of the Document de Référence n°D05-0456 filed with the AMF on April 18, 2005 or, for an English version, in pages F-6 through F-118 and in page F-5, respectively, of the Form 20-F filed with the SEC on June 29, 2005.

Selected Key Consolidated financial data for the last three years

	Year Ended December 31,		
	2006	2005	2004
Revenues	20,044	19,484	17,883
EBITA (a)	4,370	3,985	3,504
EBITA / Revenues (%)	***21.8%***	***20.5%***	***19.6%***
Earnings attributable to equity holders of the parent	4,033	3,154	3,767
Adjusted net income, attributable to equity holders of the parent (a)	2,614	2,218	1,498
Adjusted net income, attributable to equity holders of the parent / Revenues (%)	***13.0%***	***11.4%***	***8.4%***
Financial Net Debt (b)	4,344	3,768	4,724
Equity	21,864	21,608	18,092
Of which attributable to equity holders of the Parent	19,912	18,769	15,449
Cash flow from operations before capital expenditures, net (CFFO before capex, net)	6,111	5,448	5,358
Cash flow from operations (CFFO)	4,466	4,157	4,354
Capital expenditures, net (capex, net) (c)	1,645	1,291	1,004
Financial investments	3,881	1,481	394
Financial divestments	(1,801)	(155)	(5,264)
Dividends paid as for previous fiscal year	1,152	689	-
Per share amounts			
Weighted average number of shares outstanding over the period	1,153.4	1,149.6	1,144.4 (d)
Adjusted net income, attributable to equity holders of the parent per share (a)	**2.27**	**1.93**	**1.31**
Number of shares outstanding at the end of the period (excluding treasury shares)	1,155.7	1,151.0	1,144.9 (d)
Equity per share, attributable to equity holders of the parent	17.23	16.31	13.49
Dividends per share paid as for previous fiscal year	**1.00**	**0.60**	**0.00**

In millions of euros, number of shares in millions, data per share in euros.

(a) Beginning June 30, 2006, Vivendi made a number of presentation changes, including changes to the presentation of the operating performances of its business segments and of the Group. Vivendi has applied these presentation changes to all periods presented in this document. For a description of such presentation changes, please refer to Section 2 and to Note 1 "Accounting policies and valuation method" of the notes to the Consolidated Financial Statements for the year ended December 31, 2006.

(b) Vivendi considers Financial Net Debt, a non-GAAP measure, to be an important indicator measuring Vivendi's indebtedness. A description of this measure is presented in Section 5 "Liquidity management and capital resources for 2006 and 2005".

(c) Capex, net consists of capital expenditures, net of proceeds from property, plant and equipment and intangible assets.

(d) Includes notes mandatory redeemable for new Vivendi shares which matured on November 2005.

I – Annual Financial Report

Preliminary comments:

At the Annual Shareholders' Meeting held on April 20, 2006, the shareholders of Vivendi Universal approved the Company's name change to "Vivendi".

The Consolidated Financial Statements for the year ended December 31, 2006 are audited and certified by the Statutory Auditors with no qualified opinion. The Statutory Auditors' report on the Consolidated Financial Statements is available on page 66.

Vivendi considers that the non-GAAP measures mentioned below are relevant indicators of the Group's operating and financial performance. In addition, beginning June 30, 2006, considering the practice of major European companies in applying IFRS and considering the accounting impact of acquisition transactions, Vivendi has made a number of presentation changes to its consolidated statement of earnings, its consolidated statement of cash flows as well as to the operating performances of its business segments and of the Group. For a description of such presentation changes, please refer to Section 2 of this report and also to Note 1 "Accounting policies and valuation methods" of the notes to the Consolidated Financial Statements for the year ended December 31, 2006.

Non-GAAP measures:

- Revenues on a comparable basis;
- EBITA as published and on a comparable basis, as described in Section 2;
- Adjusted net income, attributable to equity holders of the parent, calculated according to its new definition, please refer to Section 2;
- Financial Net Debt; and
- Cash flow from operations, as published and on a comparable basis.

Each of the indicators is defined in the appropriate section of this report or in the notes to the Consolidated Financial Statements for the year ended December 31, 2006. These indicators should be considered in addition to, not as a substitute for, other GAAP measures of operating and financial performances as presented in the Consolidated Financial Statements and the related notes, or described in the Annual Financial Report section. Moreover it should be emphasized that other companies may define and calculate these indicators differently than Vivendi, thereby affecting comparability.

Summary of 2006, 2005 and 2004 main developments

Over the last three years, Vivendi's main goal was to consolidate its positions in its core businesses. The main developments that occurred over this period are presented below:

2006

– On January 6, 2006, Vivendi signed an agreement with TF1 and M6, followed by the signing of an investment agreement between Vivendi, Groupe Canal+ and Lagardère on March 14, 2006. These agreements provide for the combination of the pay-TV businesses of the Canal+ Group and TPS in France to create a new group named Canal+ France. The French antitrust authorities authorized the transaction on August 31, 2006. Certain preliminary transactions required by the agreements closed during the fourth quarter 2006 and the final merger transaction closed on January 4, 2007. (See 2007 Events and Section 1.1.1., below, for a full description of these transactions).
– On February 7, 2006, Vivendi acquired the approximate 7.7% interest held by Matsushita Electric Industrial Co, Ltd in Universal Studios Holding I Corp., the subsidiary that principally held 100% of UMG and 20% of NBC Universal.
– During the second and third quarters SFR increased its stake in Neuf Cegetel to 40%. Neuf Cegetel shares have been trading on the Eurolist of Euronext Paris SA since October 24, 2006.
– At the beginning of June 2006, Vivendi signed an agreement with the United States Internal Revenue Service (IRS) to terminate their dispute concerning the amount of tax due on the redemption of DuPont shares from Seagram in April 1995.

- On July 6, 2006, Vivendi sold its residual 5.3% stake in Veolia Environnement.
- On August 3, 2006, Vivendi terminated its deposit agreement with The Bank of New York relating to its American Depositary Receipts (ADRs). At the end of October, Vivendi terminated its reporting obligations under the U.S. Securities Exchange Act of 1934.
- On September 6, 2006, Vivendi entered into a definitive agreement to purchase 100% of BMG Music Publishing Group (BMGP). A deposit amount equal to the purchase price (€1.6 billion) was made on December 15, 2006. The transaction is subject to the regulatory approval of the EU competition authorities. Such regulatory approval has been obtained in the United States.
- On December 14, 2006, Vivendi amended its agreement with General Electric Company regarding certain liquidity rights with respect to Vivendi's stake in NBC Universal.
- On December 29, 2006, Maroc Telecom acquired a 51% stake in Onatel, the national telecommunications operator in Burkina Faso.

2005

- On January 4, 2005, Vivendi completed the acquisition of an additional 16% stake in Maroc Telecom to reach 51%, perpetuating the majority control it had acquired following the privatization of Maroc Telecom at the beginning of 2001.
- On June 7, 2005, NBC Universal acquired from InterActiveCorp (IACI) its minority interest held in Vivendi Universal Entertainment (VUE) and an agreement was reached regarding the tax dispute between Vivendi and IACI.
- On August 22, 2005, Cegetel and Neuf Telecom (in which SFR held a 28.2% equity interest at that date) completed their combination creating Neuf Cegetel.

2004

- On August 22, 2004, Vivendi was admitted to the French Consolidated Global Profit Tax System to optimize its tax structure.
- On May 11, 2004, Vivendi completed the strategic alliance between VUE and NBC to form NBC Universal, in which Vivendi held 20%.
- Blizzard Entertainment successfully launched *World of Warcraft* with more than 8 million paying customers at December 31, 2006.
- On December 9, 2004, Vivendi divested 15% of its 20.3% stake in Veolia Environnement.
- The Canal+ Group continued to increase its sports program offerings after winning exclusive rights to the French Soccer League 1 in December 2004, for the 2005-2006 to 2007-2008 seasons.

For the last three years, due to the restoration of the Group's profitability as well as to the generation of available cash, Vivendi paid a dividend which amounted to €0.60 per share for 2004 (€689 million) and €1 per share for 2005 (€1,152 million), representing more than 50% of adjusted net income, attributable to equity holders of the parent, in accordance with the dividend policy announced by the Group. For the same reasons, Vivendi again proposes to pay a dividend of €1.20 per share for 2006, representing approximately €1.4 billion.

2007 Events

- On January 4, 2007, TF1 and M6 transferred 100% of the share capital of TPS and Lagardère transferred its 34% equity interest in CanalSat to Canal+ France, which transfers were paid for in Canal+ France shares. Pursuant to an earlier transaction that occurred in December, 2006, Lagardère received newly-issued shares in Canal+ France in consideration of cash. Following these transactions, Vivendi has exclusive control of Canal+ France with a 65% equity interest, whereas Lagardère, TF1 and M6 hold 20%, 9.9% and 5.1%, of Canal+ France, respectively. Canal+ France mainly owns 100% of CanalSat, TPS, Canal+ Distribution, MediaOverseas and Multithématiques and 49% of Canal+ SA. (See Section 1.1.1. below).
- During the year 2007, Vivendi will focus on closing the acquisition of BMGP, a music publishing group, as described in Section 1.1.6.

1 Main developments in 2006, 2005 and 2004

1.1 2006 main developments

1.1.1 COMBINATION OF THE CANAL+ FRANCE AND TPS PAY-TV ACTIVITIES IN FRANCE

On January 6, 2006, Vivendi, TF1 and M6 entered into an agreement (the "TF1-M6 Agreement") setting forth the terms and conditions of the proposed merger of (i) Télévision Par Satellite SNC (TPS) and its direct and indirect subsidiaries and (ii) the pay-TV publishing and service distribution activities of Groupe Canal+ in France (including overseas departments and territories) and other Francophone countries, into Canal+ France. TF1 and M6 would own an aggregate of 15% (9.9% and 5.1%, respectively) of Canal+ France which would be under the exclusive control of Vivendi. The TF1-M6 Agreement stipulated that the merger transactions would be achieved on a cash-free, debt-free basis with a zero "net cash position" (contractual aggregate determined on August 31, 2006).

On March 14, 2006, Lagardère, Vivendi and Groupe Canal+ entered into an investment agreement (the "Lagardère Agreement") mainly providing for the acquisition of TPS by Vivendi and Groupe Canal+. Under the terms of this agreement, Lagardère Active undertook, subject to certain conditions precedent, to acquire a 20% interest in Canal+ France by (i) transferring its 34% ownership interest in CanalSatellite (without dilution of the shareholdings of TF1 and M6) and (ii) acquiring Canal+ France shares from Groupe Canal+ for €525 million in cash, less 34% of CanalSatellite's "net cash position" and 16.7% of the net available cash of GIE Numérique, plus 20% of the "net cash position" of Canal+ France.

The scope of Canal+ France's assets principally includes 100% ownership of CanalSatellite, Canal+ Distribution, MultiThématiques, Media Overseas, GIE Numérique and TPS, and 49% ownership of Canal+ S.A. The assets of Groupe Canal+ held outside Canal+ France are StudioCanal, Cyfra+, Canal+ Régie and i>Télé.

On August 30, 2006, the merger was authorized, pursuant to the merger control regulations, by a decision of the French Minister of the Economy, Finance and Industry, subject to Vivendi and Groupe Canal+ complying with certain undertakings. Without calling into question the pay-TV economic model, or the industrial logic behind the transaction and the benefits to the consumer, these commitments satisfy, more specifically, the following objectives:

- facilitate the access of television and video-on-demand (VOD) operators to rights on attractive audiovisual content and in particular French and US films and sporting events. To this end, the Group Canal+ undertakes, notably, to restrict the term of future framework agreements with major US studios to a maximum of three years, not to seek exclusive VOD rights, to guarantee non-discriminatory access to the StudioCanal catalogue, to restrict the proportion of films taken from this catalogue in the acquisition of films by the future entity and to cease soliciting combined offers for different categories of cinematographic and sporting rights.

  In addition, the Group Canal+ undertakes to retrocede, within the framework of competition requirements, free-to-air audiovisuals rights to TV series and sporting events that the new entity may hold and does not use.

- make available to all pay-TV distributors who so wish several high-quality channels, enabling them to develop attractive products. Third parties will be provided with access to TPS Star, three cinema channels (CinéStar, CinéCulte, CinéToile), Sport+ and the children's channels Piwi and Teletoon. In addition, Canal+ will be available in digital (self distribution) to all operators wishing to include this channel in their product range.

- enable French-language independent licensed channels to be included in the satellite offerings of the new group. The current proportion of theme channels in the Group's offerings that are neither controlled by the Group Canal+ or one of the minority shareholders in the new entity (Lagardère, TF1, M6), will be retained at the current level as a minimum, including in the basic offering. This guarantee applies both in terms of the number of channels and revenue.

These commitments are given by Vivendi and the Group Canal+ for a maximum period of six years, with the exception of those commitments relating to the availability of channels and VOD that cannot exceed five years.

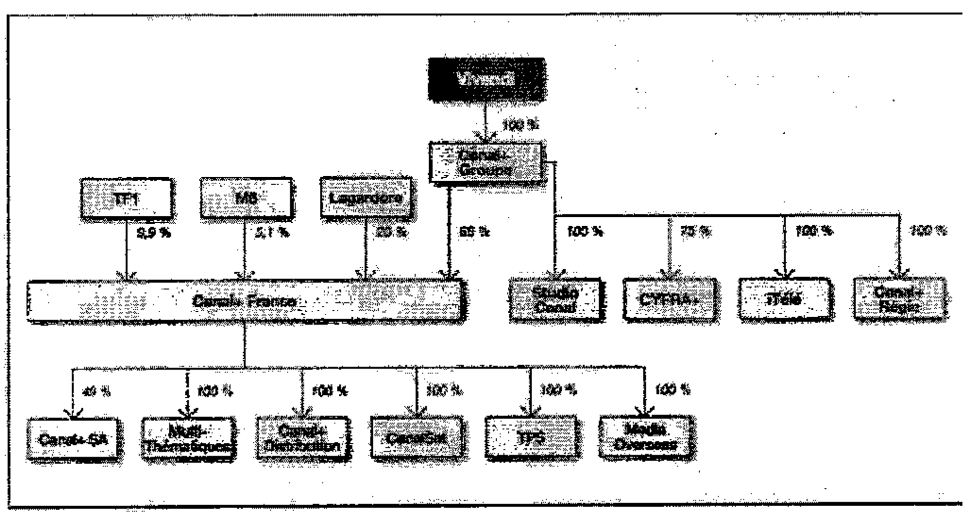
This merger was completed on January 4, 2007 following completion of the following preliminary transactions:

- On November 30, 2006, Groupe Canal+ transferred to Canal+ France all of its assets and operating activities of pay-TV publishing and distribution in France (including overseas departments and territories) and other Francophone countries (with the exception principally of MediaOverseas which had been previously sold to Canal+ France). The recapitalizations provided for in the TF1-M6 Agreement to reduce the "net cash position" of TPS and Canal+ France to zero were also carried out on this date by TF1 and M6 on the one hand, and by Groupe Canal+ on the other.
- On December 19, 2006, Groupe Canal+ sold 9.82% of the share capital of Canal+ France (which, at such date, excluded TPS and included 66% of CanalSatellite) to Lagardère Active for a total consideration of €469 million, subject to the satisfaction by January 15, 2007 of certain conditions precedent, including the completion of the contribution to Canal+ France of 100% of TPS by TF1 and M6 and of 34% of CanalSatellite by Lagardère. Pursuant to the Lagardère Agreement, the amount paid corresponded to the price of €525 million (on a cash-free-debt-free basis), less 34% of the "net cash position" of CanalSatellite and less 16.7% of the available net cash of EIG Numérique, plus 20% of the "net cash position" of Canal+ France. In 2006, this disposal generated a gain of €128 million. In order to guarantee repayment of this sum by Groupe Canal+ to Lagardère if conditions precedent were not satisfied, a stand-alone, first-demand, bank guarantee was set up by a financial institution in favor of Lagardère Active at the request of Vivendi. As part of the arrangements for setting up this guarantee, Vivendi delivered a cash deposit for the same amount and duration to guarantee Vivendi's obligation to repay the financial institution the amount it would pay Lagardère Active in the event that the first-demand were to be called. The guarantee and the cash deposit were terminated on January 4, 2007. As of December 31, 2006, the cash deposit is recognized as short-term financial assets and recorded as a reduction of Financial Net Debt, considering its maturity date (January 4, 2007) (please refer to Section 5 "Liquidity management and capital resources in 2006 and 2005").

The merger was completed on January 4, 2007 as follows:

- TF1 and M6 transferred to Canal+ France 100% of the share capital of TPS Gestion, a company which wholly-owns TPS. These contributions of assets were valued at €900 million and were paid for in Canal+ France shares. Upon completion of these asset transfers, TF1 and M6 held a 9.9% and 5.1% interest in Canal+ France, respectively.
- Lagardère Active transferred to Canal+ France its 24% equity interest in CanalSatellite and 100% of its equity interests in Lagardère Television Holdings SA, which owns 10% of CanalSatellite's share capital. These contributions of assets were valued at €891 million and were paid for in Canal+ France shares. Upon completion of these asset transfers and considering the Canal+ France shares acquired on December 19, 2006, Lagardère Active held a 20% interest in the share capital of Canal+ France.
- The €150 million advance made by Vivendi to TF1 and M6 on January 6, 2006 was repaid to Vivendi with interest on January 4, 2007. In terms of accounting, the €150 million advance was accounted for under current financial assets in the balance sheet as of December 31, 2006.
- TPS was included in the scope of consolidation of Canal+ France (fully consolidated) on January 4, 2007, on which date Vivendi became in a position to exercise its shareholders rights that gave it the exclusive control of TPS.

Following these transactions, the organizational chart of the new group is as follows:



TF1's and M6's Put Options

Each of TF1 and M6 were granted by Vivendi a put option on their stakes in Canal+ France. This option is exercisable in February 2010 at fair market value, to be determined by an expert, with a floor of €1,130 million for 15% of Canal+ France (corresponding to a valuation of €7.5 billion for 100% of Canal+ France).

Lagardère's Call Option

Pursuant to the Lagardère Agreement, Lagardère was granted a call option by Groupe Canal+ pursuant to which Lagardère may increase to 34% the level of its equity interest in Canal+ France. The option is exercisable in October 2009, at fair market value, to be determined by an expert (which exercise price will be the same as the exercise price of the put options held by TF1 and M6 if one and/or the other is exercised) with a floor of €1,050 million for 14% of Canal+ France (corresponding to a valuation of €7.5 billion for 100% of Canal+ France). If Lagardère decides to exercise such call option, the transaction would take place following the exercise (or failing that, the lapse) of the TF1 and M6 put options.

Shareholders' Agreement between Vivendi, TF1 and M6

Pursuant to the shareholders' agreement entered into on January 4, 2007, TF1 and M6 were granted a tag-along right in the event of the transfer of the exclusive control of Canal+ France by Vivendi/Groupe Canal+, together with a priority right to sell their stakes on the market in the event of a public offering of Canal+ France's shares. TF1 and M6 are not represented on the supervisory board of Canal+ France and do not have rights of any kind in respect of the management of Canal+ France. Vivendi has a pre-emptive right over all the shares owned by TF1 and M6.

Strategic Agreements between Vivendi, Groupe Canal+, Lagardère and Lagardère Active

The CanalSatellite agreement entered into in 2000 between Lagardère and Groupe Canal + terminated on January 4, 2007.

Pursuant to the Canal+ France strategic agreements entered into on January 4, 2007, Lagardère was granted rights to preserve its economic interest in Canal+ France, which rights vary according to the level of its ownership in Canal+ France. Under no circumstances will Lagardère have any joint control of Canal+ France including in the event that Lagardère were to exercise its call option. The main provisions of these strategic agreements are as follows:

- The Chairman and all members of the management board of Canal+ France will be appointed by Groupe Canal+. Lagardère will be represented by two out of the eleven members of the supervisory board. This number will be increased to three in the event of an increase to a level of 34% of Lagardère's ownership in Canal+ France.
- Lagardère has certain veto rights over Canal+ France and, in certain cases, over its major subsidiaries (including in the event of a change in the statutes, a major and lasting change in the business, its transformation into a company in which the partners have unlimited liability, a single investment of over a third of revenues, a public offering of the company's shares, in certain circumstances the entry of a third party as a shareholder, and, so long as Lagardère owns 34% of Canal+ France's capital, borrowings over the thresholds of 50% and 90% of revenues as a function of the margin of earnings from operations (EFO[1]), and certain other rights (including a tag-along right, an anti-dilution right, certain bidding rights in the event of the sale of Canal+ France) intended to protect its economic interest. Vivendi has a pre-emptive right in the event of a sale of Lagardère's equity interest.
- Between 2008 and 2014, Lagardère will have a liquidity right exercisable between March 15 and April 15 of each calendar year, provided, however, that Lagardère owns at least 10% but no more than 20% of the capital and voting rights of Canal+ France, and provided further that it has waived its right to exercise its call option (if such option has not lapsed) enabling it to own 34% of the capital of Canal+ France. Pursuant to this liquidity right, Lagardère will be able to request the public offering of Canal+ France shares. In this event Vivendi/Groupe Canal+ has the right to acquire all of Lagardère's equity interest.

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[1] *EFO (Earnings From Operations as defined and used by Vivendi until June 30, 2006; please refer to section 2.1 "Change in presentation") consists of gross margin, selling, general and administrative expenses, costs related to employee benefit plan excluding the change in financial component, costs related to share base payments, restructuring costs, the change in currency hedging instruments related to operating activities and gain and loss on the divestments of property, plant and equipment and intangible assets.*

- The financing of Canal+ France has been structured through a mechanism which includes shareholders' loans and the delivery of guarantees with respect to Canal+ France's obligations. Pursuant to this mechanism, Lagardère has the option to participate in such financing and guarantee arrangements pro-rata its level of ownership in the share capital of the company. With effect from 2011, after the reimbursement of the shareholder loans to which Lagardère has not contributed in proportion to its equity interest and subject to compliance with certain indebtedness ratios, Canal+ France will distribute a dividend equal to its available cash flow not necessary for the financing of its operations provided that Lagardère owns at least 34% of the share capital of Canal+ France.

Counter guarantee for TF1 and M6's commitments

Vivendi has undertaken to assume the commitments and guarantees made by TF1 and M6 in connection with TPS's liabilities, upon completion of the merger. This commitment took the form of a counter guarantee in favour of TF1 and M6, which was given by Vivendi on January 4, 2007.

Vivendi has also guaranteed TF1's commitments and guarantees made in connection with an output arrangement between TF1 and The Weinstein Company. Such arrangement was transferred to TPS on January 4, 2007.

These counter guarantees, which represent an amount of €300 million, are intended to remain in place so long as TPS' obligations guaranteed by TF1 and M6 remain outstanding.

1.1.2 SIMPLIFICATION OF NORTH AMERICAN STRUCTURE

In February 2006, Vivendi acquired from MEI its approximate 7.7% interest in Universal Studios Holding I Corp. (USHI) for a purchase price of $1,154 million (€964 million). As a result, Vivendi increased its ownership in UMG from 92.3% to 100% and NBCU from 18.5% to 20%. Vivendi was also able to simplify its corporate structure which enabled it to:

- eliminate intermediary holding companies which no longer serve any purpose (Universal Studios Holding I Corp. in particular); and
- reduce the current account advance granted by Vivendi to Vivendi Holding I Corp. (the holding company for the Group's US businesses) by approximately $2.5 billion. Hedging swaps protecting Vivendi against foreign exchange risk related to this current account advance, which are now unnecessary, were fully settled during July 2006 via the purchase of US dollars on the market. At current market conditions, the financial surcharge of the hedging of the current account advance, related to the unfavorable US dollar/euro interest rate difference, has been eliminated.

In addition, as part of Vivendi's process of simplifying the organizational structure of the Group in North America, all of the outstanding exchangeable shares of Vivendi Exchangeco Inc. were acquired on November 27, 2006 by another Canadian subsidiary of Vivendi (through the exercise of its overriding call right in accordance with the terms and conditions of the exchangeable shares, which were modified in early November), in exchange for an ordinary share of Vivendi S.A. plus a cash amount of Cdn.$1.42 per exchangeable share (corresponding to a total cash outlay of Cdn $ 6 million). This exchange had no impact on the share capital of Vivendi due to the concurrent issuance of new Vivendi shares and the cancellation of an equivalent number of outstanding shares. As a result, from such date, no exchangeable shares remain outstanding. The exchangeable shares were delisted from the Toronto Stock Exchange and Vivendi Exchangeco Inc. has ceased to be a reporting issuer under Canadian securities laws.

1.1.3 INCREASE IN SFR'S STAKE IN NEUF CEGETEL

In 2006, pursuant to the exercise of its pre-emptive rights, SFR increased its stake in Neuf Cegetel from 28.2 % to 40.5% for a total investment of €626 million. On October 24, 2006, Neuf Cegetel shares were admitted to trading on the Eurolist of Euronext Paris SA.

- In May 2006, SFR increased its stake in Neuf Cegetel from 28.2% to 34.9%, for a consideration of €276 million.
- In September 2006, SFR further increased its stake in Neuf Cegetel from 34.9% to 40.5% for a consideration of €238 million.
- Prior to the Neuf Cegetel IPO, SFR purchased approximately 5 million Neuf Cegetel shares from the Louis Dreyfus Group in an over-the-counter transaction at the IPO share price, representing a total consideration of €112 million. This enabled SFR to maintain its percentage ownership interest in Neuf Cegetel, after completion of the share capital increases that accompanied the Neuf Cegetel IPO.

- Following these operations, SFR became the predominant shareholder of Neuf Cegetel with a 40.5% ownership interest with four members out of the ten board members. Louis Dreyfus Group holds a 29.6% ownership interest and is represented by three out of the ten board members.
- In addition, effective as of the date of the IPO, SFR and the Louis Dreyfus Group entered into, a new shareholders' agreement. This agreement does not affect the governance of Neuf Cegetel that is consolidated using the equity method in SFR. Please refer to Note 29.5 to the Consolidated Financial Statements for the year ended December 31, 2006.

In March 2006, Neuf Cegetel redeemed the remaining bonds payable to SFR (€180 million).

1.1.4 VIVENDI RESOLVES DISPUTE OVER DUPONT SHARES AND DIVESTS DUPONT SHARES

At the beginning of June 2006, Vivendi announced that an agreement had been reached with the United States Internal Revenue Service (IRS), ending their dispute concerning the amount of tax due on the redemption of DuPont shares by Seagram in April 1995. The agreement reached with the IRS provided for a payment by Vivendi in the total amount of approximately $671 million (€521 million), including tax of $284 million and interest of $387 million, to settle this dispute. As a result of this settlement, the reversal of the entire deferred tax liability previously accounted for in connection with this matter ($1,847 million) recorded on the Group's Statement of financial position and the inclusion of the tax credit with respect to the interest paid ($135 million), generated a net gain of $1,311 million (€1,019 million).
At the end of June 2006, Vivendi sold all of the 16.4 million freely transferable DuPont shares that it has held since its merger with Seagram. This transaction was performed using a unit price of $40.82, for a total amount of $671 million (€534 million) and resulted in a capital loss of -$123 million (-€98 million).
As of December 31, 2006, these transactions had no net impact on Vivendi's cash position and resulted in a net gain of $1,268 million (€984 million).
Please refer to Note 6.1 of the notes to the Consolidated Financial Statements for the year-ended December 31, 2006.

1.1.5 STAKE IN PTC

Situation at the end of 2006

The legal uncertainty surrounding the ownership of Telco's stake in Polska Telefonica Cyfrowa (PTC), a Polish mobile telecom company, due to the legal disputes involving Elektrim Telekomunikacja (Telco), Vivendi, Deutsche Telekom (DT) and Elektrim SA (Elektrim), prevents Telco from exercising joint control over PTC, as provided in the bylaws of PTC. As a result of this situation, Vivendi has not consolidated its stake in PTC.

In addition, the courts have rendered several decisions that were unfavorable to Telco (notably the decision of the Warsaw Court of Appeal on March 29, 2006, followed by another decision of the Warsaw Court of Appeal on June 21, 2006, which cancelled the registration of Telco as a PTC shareholder on the Trade and Companies Registry, and the decision on July 13, 2006 of the Trade and Companies Registry to re-instate Elektrim as a PTC shareholder). As a result, Vivendi has recognized a loss of €496 million on the PTC shares. Vivendi purchased its stake in Telco/PTC between 1999 and 2005 (see below) for an aggregated amount of €2,011 million (in share capital subscriptions and advances, including capitalized interests). Please refer to Note 15.1 "Changes in available-for-sale securities" to the Consolidated Financial Statement as of December 31, 2006.

Recently, several courts have rendered decisions that were favorable to Telco. In particular, on December 18, 2006, the Austrian Supreme Court rejected the request for annulment of the arbitration award rendered in Vienna on November 26, 2004, on the basis that Telco was not a party to that arbitration and that this arbitration award could not affect Telco's rights with respect to the PTC shares. On January 18, 2007, the Polish Supreme Court overturned the decision of the Warsaw Court of Appeal of March 29, 2006 and ordered that the case be reheard by the court of first instance. Consequently, Vivendi and Telco appealed for the registration of Telco as a shareholder of PTC.

Moreover, Vivendi continues legal proceedings, particularly for compensatory damages, the outcome of which remains uncertain. Please refer to Note 30 "Litigations" of the notes the Consolidated Financial Statements for the year ended December 31, 2006 for a description of the main legal proceedings involving Telco, Vivendi, DT and Elektrim, especially regarding Telco's ownership stake in PTC, updated on February 27, 2007, the date of the Management Board meeting which approved the financial statements for the year ended December 31, 2006.

Events occurring prior to 2006

Initial investment in Telco/PTC between 1999 and 2001

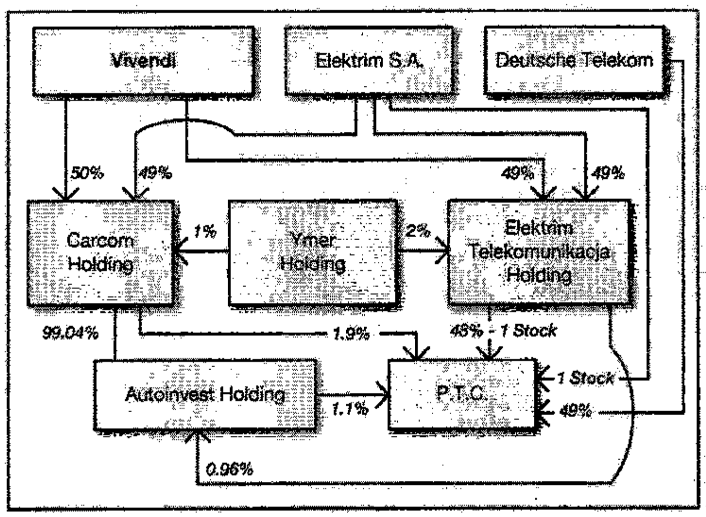
In December 1999, Vivendi purchased a 49% stake in the share capital of Telco, alongside Elektrim which held the remaining 51% interest until September 3, 2001. On September 3, 2001, Vivendi and Elektrim entered into an agreement regarding the shareholding structure and corporate governance of Telco. On that same date, Ymer Finance (Ymer), a company incorporated under Luxembourg law, acquired a 2% stake in Telco from Elektrim. In parallel, Vivendi acquired non-voting shares in LBI Fund, an investment company operating as a mutual fund, which provided Ymer with the financing necessary to purchase its stake in Telco. Via the mechanism used to determine the net asset value of its shares in the LBI Fund, Vivendi bore the economic risk associated with the assets held by Ymer. Vivendi had no obligation to purchase the Telco shares held by Ymer and the latter was neither entitled nor obligated to sell them to Vivendi. The Telco bylaws grant preemptive rights to Vivendi.

Acquisition of a supplementary 2% stake in Telco on December 12, 2005

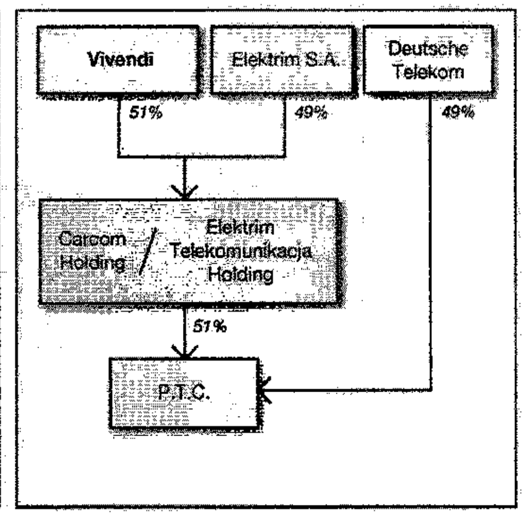
Until December 12, 2005, Telco was held 49% by Vivendi, 49% by Elektrim and 2% by Ymer. Telco's only asset is a 48% investment in PTC, alongside DT (49%) and Carcom (3%). Until this date, Carcom was held 50% by Vivendi, 49% by Elektrim and 1% by Ymer.

On December 12, 2005, after having consulted with EU competition authorities in November 2005, Vivendi acquired from Ymer, the stakes it held in Telco (2%) and in Carcom (1%), for a total cash consideration of €90 million. Since that date, Vivendi has held a 51% equity and voting interest in both Telco and Carcom. As of December 31, 2005, the simplified organization chart of Telco and PTC is as follows:

Organization chart as at December 31, 2004:



Simplified organization chart as at December 31, 2005:



1.1.6 AGREEMENT FOR THE ACQUISITION BY UMG OF BMG MUSIC PUBLISHING (BMGP)

On September 6, 2006, Universal Music Group (UMG) entered into an agreement with Bertelsmann AG to purchase 100% of BMG Music Publishing (BMGP). The gross purchase price is €1,639 million. A deposit representing the net amount was paid in cash on December 15, 2006 and included an adjustment for cash generated by BMGP during the period from July 1, 2006 to December 15, 2006 and for interest capitalized over this period. The final price consideration of the transaction will be adjusted for cash generated by BMGP during the period from December 16, 2006 to the closing date of the transaction and for interest capitalized over this period. The transaction is subject to the regulatory approvals of the competition authorities in the relevant countries. Such approval has been obtained in the United States. However, on December 8, 2006, the European Commission announced that the transaction will be subject to a Phase II inquiry.

BMGP is among the world's leading music publishers with a catalog of over 1 million copyrights and a roster of chart topping writers such as Coldplay, Justin Timberlake, Maroon 5, Christina Aguilera, R. Kelly and Juan Gabriel, among others. Its extensive catalog includes compositions by The Scorpions, Barry Manilow, Gilbert Becaud, Puccini and Ravel.

Until the closing date and the consolidation of BMGP by UMG, the cash outlay is recorded as a non current financial asset.

1.1.7 VIVENDI MODIFIES THE TERMS OF ITS LIQUIDITY RIGHTS AGREEMENT WITH GENERAL ELECTRIC WITH RESPECT TO ITS 20% STAKE IN NBC UNIVERSAL

On December 14 2006, Vivendi informed General Electric Company (GE) of its decision not to exercise its exit rights with respect to NBC Universal (NBCU) in January 2007. Therefore, Vivendi remains a shareholder in NBCU with a 20% stake.

Simultaneously, Vivendi and GE modified the agreement which governs the liquidity of Vivendi's interest in NBCU.

As part of the modified agreement that governs Vivendi's exit from NBCU, Vivendi can sell its stake in NBCU under mechanisms providing for exits at fair market value. Vivendi has the right to notify GE of its intent to sell in the public market between $1 billion and $4 billion of its NBCU shares in November of each year between 2007 and 2016, which could lead to the public offering of a portion of Vivendi's stake the following year. GE has the right to pre-empt any of Vivendi's sales to the market. Under certain circumstances, if Vivendi does exercise its right to monetize its equity interest in NBCU and if GE does not exercise its pre-emptive right, Vivendi will be able to exercise a put option to GE. In addition, for the period between May 11, 2011 and May 11, 2017, GE has the right to call either (i) all of Vivendi's NBCU shares or (ii) $4 billion of Vivendi's NBCU shares, in each case at the greater of their market value at the time the call is exercised and their value as determined at the time of the NBC-Universal transaction (i.e., $8.3 billion), which value is increased by the US Consumer Price Index annually beginning May 2009. If GE calls $4 billion, but not all, of Vivendi's NBCU shares, GE must call the remaining NBCU shares held by Vivendi by the end of the 12-month period commencing on the date GE exercises its call option.

1.1.8 RISK MANAGEMENT OF RETIREMENT PENSION OBLIGATIONS

Vivendi inherited from Seagram significant obligations related to pension plans and post-retirement benefits, mainly in the US and the UK and concerning employees and retired employees of Seagram's Spirits and Wine business which was sold to Diageo and Pernod Ricard at the end of 2001, those of Universal Music Group (UMG) and, to a lesser extent, those of Vivendi Universal Entertainment (VUE) (business sold in the middle of 2004).

As of December 31, 2006, according to the evaluation performed by independent actuaries, these obligations amounted to €1,478 million, covered by financial assets of €911 million (a deficit of €567 million) against which net provisions of €464 million are recorded on the balance sheet. Please refer to Note 20 "Employee benefits" of the notes to the Consolidated Financial Statements for the year ended December 31, 2006.

The majority of the plans' deficits result from unfavorable financial market trends. Although starting from a generally balanced position at the end of 2000, Vivendi's pension funds have been widely exposed to the following factors:

- a drop in interest rates that increased the present value of liabilities more than the present value of assets due to the lower maturity of the latter;
- a steep decline in the equity markets in which the plan assets had been heavily invested; and
- a higher forecasted inflation which resulted in increased liability of the partial indexation of plans in certain countries.

Over a year ago, Vivendi established a risk management strategy to meet its retirement pension obligations based on the following three approaches:

- capping financial risks related to the obligations by ceasing further benefit accruals under defined benefit plans and transferring active employees to defined contribution plans;
- reducing financial risks related to the plans through the use of financial derivatives (interest rate, inflation and equity derivatives) to hedge actuarial liabilities and the related plan assets; and
- canceling financial risks by the definitive transfer of the pension plans to insurance companies whenever market conditions are favorable.

The aim is to transform actuarial, risky and volatile liabilities with regards to pension obligations into financial, controlled and hedged liabilities, with no exposure to interest rate changes or changes in the equity markets. In this respect, Vivendi has performed or is preparing to set up the following transactions:

- In May 2006, Vivendi purchased an insurance policy for $95 million (€78 million) to cover the cost of pension and life insurance benefits for former Seagram senior executives in the US. As a result of this purchase, Vivendi no longer has any on-going funding obligations with respect to this plan.

- In addition, Vivendi intends to subscribe to an insurance policy to cover its principal US defined benefit plan (approximately 10,000 Seagram Spirits and Wine, UMG and VUE vested members and retirees). As of December 31, 2006, approximately 95% of the plan's deficit was covered through additional fund contributions, for $92 million (approximately €74 million), completed by a deposit of $38 million (€30 million), dedicated to the financing of the insurance policy. In addition, its investment policy was amended in order to match the plan's assets to the pension liability of the plan, and in particular to minimize or eliminate fluctuations resulting from interest rate changes. After receiving the appropriate administrative and governmental approvals, expected in the second quarter of 2007, Vivendi plans to transfer this plan to an insurance company, which will become entirely responsible for its complete management and, consequently, Vivendi will no longer have any financial commitment with respect to this plan.
- Moreover, Vivendi is currently reviewing terms and conditions in order to set up a similar policy in other countries.

As of December 31, 2006, the actions undertaken mainly in the US and the UK had the following impacts on the Consolidated Financial Statements:

- a positive impact of €56 million on EBITA;
- the payment of -€78 million with respect to insurance policies purchased in the US;
- the reduction in the provision for pensions for an amount of €134 million; and
- an exceptional contribution of approximately -€74 million as well as a deposit amounting to €30 million with a reduction in the pension liability provision of approximately €94 million pursuant to the financing of the deficit in the US defined benefit plan.

As a result, the actions undertaken during fiscal year 2006 as part of the risk management of retirement pension obligations led to a total payment in the amount of -€182 million and a reduction in pension and post-retirement benefits liabilities of €228 million. Consequently, the pension and post-retirement benefits liability was reduced to €567 million, from €770 million as of December 31, 2005. In addition, estimated future payments (discounted over a 10 year period) attributable to beneficiaries of pension and post-retirement benefits were reduced to €488 million, compared to €748 million as of December 31, 2005. For a detailed presentation of employee benefit commitments, please refer to Note 20 of the Consolidated Financial Statements as of December 31, 2006.

1.1.9 ACQUISITIONS/DIVESTITURES OF OTHER AFFILIATES

- **Divestiture of the residual 20% stake in Ypso**. Please refer to Section 1.3.4.

- **The Canal+ Group sold the Paris Saint-Germain soccer club** in June 2006, for a total consideration of €26 million. Vivendi received one-fourth of the consideration (€7 million) in cash. The balance will be paid each year in quarterly installments at the transaction's anniversary date. This divestiture generated a €10 million decrease in Financial Net Debt and a capital loss of €23 million (including some impacts related to vendor warranties).

- **Acquisition of Optimum Releasing**, a UK film distribution company by StudioCanal in July 2006.

- **Acquisition of Vale,** Spain's number one independent music publishing company, by UMG in October 2006.

- **Disposal of Roadrunner by UMG.** On December 15, 2006, Universal Music Group exercised its put option to sell its 50% stake in, and terminated its distribution agreement with, Roadrunner Records BV.

- **Acquisition of a 51% stake in Onatel, the national telecommunications operator in Burkina Faso** by Maroc Telecom in December 2006, for a cash consideration of €220 million following the completion of a bidding process. As of December 2006, with sales of €103 million in 2005, Onatel and its subsidiary Telmob, provided services to over 100,000 fixed-line customers according to Onatel. The market is promising with a current penetration rate for mobile estimated at 8.0%.

- **Acquisition of iVillage by NBCU.** During the second quarter of 2006, NBCU acquired iVillage, the US women's online media network, for approximately $600 million paid in cash. Vivendi subscribed to the NBC Universal capital increase to finance this acquisition for an amount of €98 million, representing its pro-rata share.

A detailed description of the transactions that had a significant impact on the consolidation scope of the Group in 2006 is presented in Note 2 to the Consolidated Financial Statements for the year ended December 31, 2006.

1.1.10 ACQUISITIONS/DIVESTITURES OF INVESTMENTS

- **Disposal of the Residual 5.3% Stake in Veolia Environnement's Share Capital.** In July 2006, Vivendi sold its residual stake in Veolia Environment's share capital (5.3% of Veolia Environnement representing 21,523,527 shares) by means of an Accelerated Book Building for a total amount of €861 million. This divestiture generated a capital gain of €832 million in the third quarter of 2006. From a tax stand point, the capital gain arising from the sale of the shares was offset against current capital losses including capital losses carried forward from prior years resulting in a zero net capital gain.

- **Vivendi and UMG increased their equity interest in Amp'd** to maintain their combined 19.9% interest following Amp'd's share capital increase. As of December 31, 2006, the Group's total investment in this company, recognized as a financial asset, amounted to €42 million.

1.1.11 OTHER

- **Dividend paid with respect to fiscal year 2005:** At the Annual Shareholders' Meeting held on April 20, 2006, Vivendi's shareholders approved the Management Board's recommendations relating to the allocation of distributable earnings for fiscal year 2005. As a result, the dividend was set at €1 per share, representing a total distribution of €1,147 million, paid in May 2006. In addition, a dividend was paid to the shareholders of Vivendi Exchangeco (former Seagram shareholders) in the amount of €5 million.

- **Rejection of Shareholder's Dismantling Approach.** In May 2006, Vivendi's Supervisory Board and Management Board studied the cooperation request presented by a shareholder, Sebastian Holdings, aimed at dismantling the Group. The Supervisory Board and the Management Board unanimously rejected this alternative which is based on unrealistic economic and legal assumptions. The Supervisory Board and Management Board have decided to pursue the Group's current strategy which is the best positioned to create value for Vivendi's shareholders.

- **Early Settlement of Rental Guarantees Related to the Berlin Building Quartier 207.** This transaction, which took place in June 2006 was neutral on earnings and resulted in a payment of €52 million with respect to the liquidation of a residual guarantee and a €240 million reduction in the contractual commitments not recorded in the Statement of Financial Position via the extinguishment of rental guarantees granted by Vivendi to the buyer of this building in 1996.

- **Disposal of the Last Philip Morris Building at La Défense.** The disposal of the Colisée building (26,000 square meters) located at La Défense in the third quarter of 2006 resulted in proceeds of approximately €39 million, a €102 million reduction in Financial Net Debt and a capital gain of €32 million.

- **Maroc Telecom Awarded 3G License.** In July 2006, Maroc Telecom was awarded a 3G mobile license by the ANRT (the Moroccan National Telecommunications Regulatory Agency) for a fixed fee of MAD 300 million (approximately €27 million, excluding tax, paid in the fourth quarter of 2006). In addition, Maroc Telecom has to pay a MAD 72 million fee (excluding tax and payable in several installments) with respect to the reorganization of frequency spectrum.

- On November 4, 2006, Vivendi confirmed having received and reviewed a friendly expression of interest from the investment firm Kohlberg Kravis Roberts & Co (KKR). This expression of interest, which included maintaining the current Vivendi assets within the group in order to create value, did not result in any proposal and has now ended.

- **Vivendi voluntarily delisted from the New York Stock Exchange (NYSE) and terminated its registration with the Securities and Exchange Commission (SEC).** On January 17, 2006, Vivendi announced its intention to terminate its American Depositary Receipt (ADR) program and to voluntarily delist its American Depositary Shares (ADSs) from the NYSE. On August 3, 2006, Vivendi terminated its deposit agreement with The Bank of New York relating to its ADRs. On October 31, 2006, Vivendi filed a notice of termination of registration on Form 15 with the SEC and terminated its reporting obligations under the U.S. Securities Exchange Act of 1934.

1.2 Main Developments since December 31, 2006

1.2.1 ACQUISITIONS/DIVESTITURES OF CONSOLIDATED COMPANIES

- **SFR agrees to purchase the fixed telephony and broadband activities of Télé2 France.** On October 2, 2006, SFR signed an agreement with the Télé2 AB Group to acquire the fixed telephony and broadband activities of Télé2 France for a price consideration of €375 million that could be revised following an earn-out clause pursuant to the terms of the agreement. This transaction is subject to the approval of antitrust authorities.

- **Maroc Telecom was announced as the winning bidder for the acquisition of a 51% stake in Gabon Telecom SA,** the largest telecommunications operator of Gabon, for an amount of €61 million. In 2006, Gabon Telecom, together with its mobile subsidiary Libertis, had revenues of €137 million in 2006, according to Gabonese estimates. Gabon Telecom is competing in a liberalized mobile market, with two other operators. Gabon Telecom estimates that it has a customer base of 250,000 mobile customers, i.e. a market share of nearly 30%, and more than 30,000 fixed-line subscribers as at December 31, 2006. At the end of 2006, the penetration rate is estimated at 53% for the mobile market and 2% for the fixed-line market.

1.2.2 OTHER

- **Voluntary redundancy plan at the Canal+ Group level.** In March 2006, management and trade union representatives of UES Canal+ signed a procedural agreement defining the Works Council information/consultation procedures and setting out a strict timetable. After the UES Canal+ Works Council issued its opinion on October 24, 2006 on the legal aspects of the merger, followed on December 21, 2006, by its opinion on the initial focus of the functional reorganization plan for the new group, management and trade union representatives of UES Canal+ and TPS signed a method agreement on January 12, 2007, framing the Works Council information/consultation procedures for the reorganization of the new group and its employee-related consequences (Books IV and III of the French Employment Code). In mid-January, elected representatives were informed of the management's reorganization plan, which involves the elimination of 364 jobs. Given the existence of a number of vacant positions within Canal+ and TPS, the plan could result in 171 employees leaving the company. Pursuant to the method agreement, the Works Council will issue its opinion no later than April 6, 2007.

- **New satellite capacity contract.** Following a consultation process, the Canal+ Group decided to retain Astra as the future sole operator carrying its television by satellite offer in France. This decision provides the Canal+ Group with long-term access to the satellite capacity it requires, with favorable price conditions, to expand the number of channels on offer and accelerate the roll-out of High Definition by satellite in France. This new contract represents an additional overall commitment of €230 million over 10 years. TPS subscribers will continue to receive their channels via Eutelsat before being invited to migrate to Astra. This transfer will take place progressively commencing in the second half of 2007.

1.3 Main Developments in 2005

In 2005, Vivendi acquired an additional 16% stake in Maroc Telecom and completed the combination of Cegetel and Neuf Telecom to create Neuf Cegetel.

1.3.1 ACQUISITION OF AN ADDITIONAL 16% INTEREST IN MAROC TELECOM BY VIVENDI

On November 18, 2004, following a firm purchasing commitment, the Kingdom of Morocco and Vivendi agreed to the acquisition by Vivendi of an additional 16% interest in Maroc Telecom to increase its stake from 35% to 51%, through Vivendi's wholly-owned subsidiary, SPT. This acquisition, which was completed on January 4, 2005, enabled Vivendi, a strategic partner that has held operating control of Maroc Telecom since the beginning of 2001, to maintain its 51% controlling interest. The price of the transaction was MAD 12.4 billion, or €1.1 billion, and included a premium for continuing control.

1.3.2 SFR: COMBINATION OF CEGETEL AND NEUF TELECOM TO CREATE NEUF NEGETEL, THE LEADING ALTERNATIVE FIXED-LINE TELECOMMUNICATIONS OPERATOR IN FRANCE

The combination of Cegetel S.A.S. (Cegetel) and Neuf Telecom was announced on May 11, 2005 and closed on August 22, 2005. After acquiring the 35% stake held by SNCF in Neuf Cegetel, in accordance with the financial conditions of the pre-existing agreements and after re-capitalizing Cegetel, SFR contributed its entire equity interest in Cegetel to Neuf Telecom in exchange for a 28.2% equity interest in Neuf Telecom as well as bonds issued by Neuf Telecom in a total amount of €380 million, €200 million of which were redeemed in cash by Neuf Telecom at the end of November 2005 and the balance in 2006.

On August 22, 2005, SFR and Louis Dreyfus, the reference shareholders of the new company had an equal stake of 28.2% each while the remaining stake of approximately 44% was held by the historical shareholders of Neuf Telecom. SFR's 28.2% stake in Neuf Cegetel (15.8% interest for Vivendi, as it holds 56% in SFR) is equity-accounted.

As of December 31, 2005, this transaction resulted in a capital gain of €121 million (€58 million after SFR's minority interests) recorded in earnings from discontinued operations.

After the reimbursement by Cegetel of the shareholders' loan granted by SFR, all of the cash flows generated during the completion of the transaction had a negative impact of €329 million on SFR's cash position (including the deconsolidation of Cegetel's cash position in the amount of €30 million). Given the recognition of the put option granted by SFR to SNCF as of December 31, 2004 in accordance with IAS 32 (the present value of such commitment being €304 million as of that date), this transaction had a favorable impact of €97 million on the Financial Net Debt (including the deconsolidation of borrowings and other financial liabilities of Cegetel for €122 million).

Please refer to Section 1.1.3 "Increase in SFR's stake in Neuf Cegetel" and Note 2 to the Consolidated Financial Statements as of December 31, 2006.

1.3.3 REINFORCEMENT OF THE PROGRAM OFFERINGS AND DISTRIBUTION OF THE CANAL+ GROUP IN 2005 AND 2004

In 2005, the Canal+ Group continued to enhance program offerings for subscribers.

In August 2005, after obtaining exclusive rights to broadcast the French Professional Soccer League 1 for three seasons (2005-2008) in December 2004, for an annual cost of €600 million, the Canal+ Group won exclusive rights to broadcast the Champions League on pay-TV until the end of the 2008/2009 season. In addition, after signing in May 2004, several agreements guaranteeing a stronger partnership with the French film industry (covering the period 2005 through 2009) and after extending an agreement in November 2004 to first broadcast all of 20th Century Fox film features, the Canal+ Group renewed its exclusive rights agreements with NBC Universal (January 2005), DreamWorks (January 2005), Spyglass (April 2005) and with Sony Pictures Television International (September 2005, including Columbia Pictures, TriStar Pictures and Screen Gems).

In addition, in May 2005, the *Conseil Supérieur de l'Audiovisuel* (the French Broadcasting Authority) allocated four DTT channel authorizations to the Canal+ Group: Canal+Cinéma, Canal+ Sport, i>Télé and Planète. On March 31, 2005, Canal+ began broadcasting unscrambled programs as part of the launch of free DTT services.

1.3.4 2005 DIVESTITURES

The Canal+ Group: Unwinding of MultiThématiques/ Lagardère cross-shareholdings

In January 2005, the Canal+ Group and Lagardère Group announced a new agreement to end their joint participation in MultiThématiques (which is wholly-owned by the Canal+ Group) and Lagardère Thématiques. This transaction, which closed on February 11, 2005, increased Financial Net Debt by €20 million (corresponding to the acquisition of 30% of MultiThématiques for €71 million and the divestiture of 49% of Lagardère Thématiques for €51 million) and generated a capital gain of €26 million.

Canal+ Group: Withdrawal from NC Numéricâble / Ypso

In 2005 and early 2006, Canal+ Group withdrew from NC Numéricâble by divesting, in two stages, its entire stake to a consortium composed of investment fund, Cinven, and cable operator, Altice.

During the first stage, signed in December 2004 and closed on March 31, 2005, the Canal+ Group kept approximately 20% in Ypso, a cable operator created through the merger between NC Numéricâble and France Télécom's cable operations and with certain assets of TDF. The Canal+ Group's proceeds from the divestiture amounted to an enterprise value of €96 million (including adjustments to the number of networks actually transferred). Net of divestiture fees and a €37 million loan granted by the Canal+ Group to the new operator, the positive impact on Financial Net Debt amounted to €52 million. Given the adjustment in value realized in 2004, the capital loss on this divestiture was a loss of approximately -€13 million. In December 2005, the Canal+ Group sold to Ypso its preferred shares without voting rights and Ypso fully reimbursed the company loan granted by the Canal+Group (capital gain of €29 million and positive impact of €76 million on Financial Net Debt, including €39 million including accrued interest for the loan reimbursement).

In January 2006, the Canal+ Group completed the divestiture of its remaining 20% stake in Ypso to Cinven-Altice for an amount of €36 million (€44 million before guarantee related costs, indemnities as well as costs of disposal). This transaction generated a capital gain of €56 million, given cumulative depreciation already recognized.

As a whole, the withdrawal from NC Numéricâble/Ypso had a positive impact of €169 million (excluding disposal costs) on the Financial Net Debt of the Canal+ Group and resulted in a capital gain of €72 million, after taking into consideration depreciation recorded in 2004.

UMG: Divestiture of CD and DVD manufacturing facilities in the United States and Germany

In May 2005, UMG divested its CD and DVD manufacturing and distribution facilities in the United States and Germany to Entertainment Distribution Company, LLC ("EDC"), a division of Glenayre Technologies, Inc. This transaction had no material impact on Vivendi's earnings from operations as of December 31, 2005, after taking into account the cost of externalizing related pension obligations. This transaction had a negative cash impact in the year ended December 31, 2005, reflecting the net selling price, certain post-closing adjustments of the selling price and the cash cost of externalizing the related pension obligations. Under the terms of the supply contracts entered into as part of the transaction, EDC is obligated to give UMG rebates of at least €37 million between 2005 and 2014.

Divestiture of Vivendi's stake in UGC

In December 2005, following the exercise of its call option by the family shareholders of UGC, Vivendi completed the divestiture of its 37.8% equity interest in UGC S.A. (representing 40% of the voting interests), which was previously equity-accounted for an amount of €89 million (including interest). The price might be adjusted depending on the date of a future sale by UGC family shareholders within various periods of exercise of the call. During 2005, Vivendi received €54 million in cash, the remaining approximately €34 million is due between 2006 (€6 million) and 2008. This transaction generated a capital gain of €10 million.

1.3.5 OTHER

IACI exited Vivendi Universal Entertainment (VUE). IACI and Vivendi Universal agreed to end litigation

On June 7, 2005, Vivendi, NBC Universal (NBCU) and InterActiveCorp (IACI) unwound IACI's interests in VUE through the purchase by NBCU of IACI's common and preferred interests in VUE. The unwinding of IACI's interests was funded in part through (i) capital contributions of $160 million by Vivendi, through its subsidiary Universal Studios Holding I Corp., (ii) the sale of treasuries (negotiable US Government debt obligations, backed by its full faith and credit) applied for the defeasance of the covenants of the VUE Class A preferred interests and (iii) the exchange of 56.6 million shares of IACI stock securing the put/call rights relating to the VUE Class B preferred interests. As a result of this exchange, Vivendi renounced the after tax benefit related to the increase of IACI's stock price above $40.82 per share in May 2022. Vivendi's obligations to fund the after-tax cost of 94.56% of the 3.6% per annum cash coupon on the VUE Class B preferred interests and pay up to $520 million to NBCU in respect of any loss from the disposition of the theme parks were eliminated. The impact of this transaction on Vivendi's statement of earnings was a gain of €194 million for the year ended December 31, 2005.

As part of this transaction, Vivendi and IACI agreed to terminate their pending tax dispute.

Vivendi proceeded to the early termination of the derivative structure affecting 5% of the share capital of Veolia Environnement

On October 25, 2005, Vivendi agreed with Société Générale to the early termination of the derivative structure (collar option) affecting 5% of the share capital of Veolia Environnement (20,321,100 shares) which was set up in December 2004.

As part of the divestiture of 15% of Veolia Environnement's share capital on December 2004, Vivendi agreed with Société Générale to a derivative transaction on a notional commitment representing 5% of Veolia Environnement's share capital allowing Vivendi to benefit, within a three year period, from an increase in Veolia Environnement's share price above €23.91. This derivative structure was terminated earlier in October 2005. Given the increase of the Veolia Environnement share price by reference to the exercise price of the collar option set in December 2004, the termination of this instrument resulted in financial income of €115 million in 2005, corresponding to the gross proceeds of the transaction (€208 million, net of fees) less the carrying value of the collar option as of January 1, 2005 (€93 million).

This transaction had no impact on the Group's adjusted net income.

Upon completion of the transaction, Vivendi retained its remaining stake of 5.3% in the share capital of Veolia Environnement (21,522,776 shares) and committed not to sell those shares for a period of three months (corresponding to January 24, 2006). This investment was fully disposed of in July 2006. Please refer to Section 1.1.10.

Vivendi also held 218,255,690 Veolia Environnement warrants at €55 that expired in March 2006, and were not exercised.

Partial redemption of bonds exchangeable into Sogecable shares

In November and December 2005, Vivendi opted for the early redemption of €363 million of bonds exchangeable into Sogecable shares with an exchange ratio of 1.0118 share for 1 bond. Vivendi delivered 12,540,403 Sogecable shares to bondholders. As of December 31, 2005, the residual amount of this borrowing amounted to €242 million and Vivendi held 8,340,850 Sogecable shares. This transaction generated a capital gain of €256 million recorded as financial income, and had no impact on the Group's cash position.

1.4 Main Developments in 2004

- Authorization to use the Consolidated Global Profit Tax System as of January 1, 2004 (please refer to Note 6.2 to the Consolidated Financial Statement as of December 31, 2006);
- Combination of NBC and VUE to create NBC Universal in May 2004;
- Divestiture of two Philip Morris Towers in June 2004;
- Divestiture of UMG's stake in VIVA Media in August 2004;
- Divestiture of 15% of Veolia Environnement, part of the 20.3% stake held by Vivendi in December 2004;
- Listing of Maroc Telecom on the Casablanca and Paris Stock Exchanges in December 2004; and
- Completion of the assets divestiture plan of the Groupe Canal+ (Sportfive in March 2006, StudioExpand's "Flux-divertissement" in June, Canal+ Benelux in August and Quai André Citroën Headquarters in September) and of the non-core operations (Brazilian publishing operations in February, Kencell in May, Monaco Telecom in June and United Cinema International in October).

For more details about these transactions, please refer to the Management Discussion and Analysis in pages 126 through 129 of the Document de Référence n°D06-0178 filed with the French Autorité des Marchés Financiers (AMF) on March 28, 2006 or pages 126 through 129 of the English translation of the Document de Référence filed on Form 6-K with the SEC on May 31, 2006.

2 Change in presentation, in accounting policies / Critical accounting estimates

2.1 Change in presentation

Beginning June 30, 2006, considering the practice of major European companies with respect to the application of IFRS and considering the accounting impact of acquisition transactions, Vivendi has made a number of presentation changes, including to the presentation of its consolidated statement of earnings and its consolidated statement of cash flows as well as the operating performances of its business segments and of the Group. Please refer to Note 1 "Accounting policies and valuation methods" of the notes to the Consolidated Financial Statements for the year ended December 31, 2006.

a) Presentation of the consolidated statement of earnings and the consolidated statement of cash flows

- Simplification of the consolidated statement of earnings' presentation by eliminating certain subtotals which are not currently used by Vivendi Management and henceforth presenting a subtotal known as "EBIT". EBIT is defined as the difference between charges and income that do not result from financial activities, equity affiliates, discontinued operations and income tax.
- As a result, the presentation of the consolidated statement of cash flows has been modified in accordance with IAS 7. In particular, net cash provided by operating activities is henceforth calculated using the indirect method based on EBIT instead of earnings.

b) Presentation of operating performance by business segment and of the Group

- Replacement of earnings from operations (EFO) with adjusted earnings before interest and income taxes (EBITA) as the key operating performance measure of the business units reported in the segment data. Vivendi Management evaluates the performance of the business units and allocates necessary resources to them for their development based on certain operating indicators (segment earnings and cash flow from operations). Until June 30, 2006, reported segment earnings were determined based on the earnings from operations of each business. They are now determined on the basis of the EBITA.
- The method for calculating EBITA aims at eliminating the impact of the amortization of intangible assets acquired through business combinations. It enables the measurement of the operating performance of each business segment on a comparable basis, regardless of whether their activity results from the company's internal growth or acquisitions and on a basis which more accurately reflects the cash that they generate by eliminating accounting amortization with no cash impact.
- The difference between EBITA and EBIT is due to the amortization of intangible assets acquired through business combinations and the impairment losses of goodwill and other intangibles acquired through business combinations that are included in EBIT.
- The difference between EBITA and EFO, as previously published, is due to the amortization of intangible assets acquired through business combinations that is excluded from EBITA.
- Accordingly, the definition of adjusted net income has been modified to exclude the amortization of intangible assets acquired through business combinations, as is presently the case for impairment losses of goodwill, or other intangibles acquired through business combinations, which have always been excluded from the definition.

Pursuant to IAS 1, Vivendi has applied these presentation changes to all the periods presented. Please refer to Appendix 2 of the Operating and Financial Review and Prospects.

2.2 Change in accounting policies

Not applicable in 2006. Please refer to Note 1 to the Consolidated Financial Statement as of December 31, 2006.

2.3 Critical accounting estimates

Some of the accounting methods and policies used in preparing our Consolidated Financial Statements under IFRS require our management's assessments of estimates based on historical results and assumptions deemed realistic and reasonable. Despite periodic reviews of these estimates and assumptions, particularly those based on past performance and forecasts, changes in facts and circumstances could affect these estimates and assumptions which in turn could impact the reported amount of group assets, liabilities, equity or earnings. These estimates and assumptions notably relate to the measurement of deferred taxes, provisions, employee benefits, share-based compensation and certain financial instruments, revenue recognition and the valuation of goodwill, other intangible assets and property, plant and equipment. Please refer to Note 1 to the Consolidated Financial Statement as of December 31, 2006 for more details.

3 Statements of earnings in 2006, 2005 and 2004

3.1 Consolidated earnings and consolidated adjusted net income in 2006, 2005 and 2004

CONSOLIDATED STATEMENT OF EARNINGS				ADJUSTED STATEMENT OF EARNINGS			
	Year Ended December 31,			Year Ended December 31,			
(In millions of euros, except per share amounts)	2006	2005	2004	2006	2005	2004	
Revenues	€ 20,044	€ 19,484	€ 17,883	€ 20,044	€ 19,484	€ 17,883	**Revenues**
Cost of revenues	(10,146)	(9,898)	(9,100)	(10,146)	(9,898)	(9,100)	Cost of revenues
Margin from operations	9,898	9,586	8,783	9,898	9,586	8,783	**Margin from operations**
Selling, general and administrative expenses excluding amortization of intangible assets acquired through business combinations	(5,533)	(5,568)	(5,193)	(5,533)	(5,568)	(5,193)	Selling, general and administrative expenses excluding amortization of intangible assets acquired through business combinations
Restructuring charges and other operating charges and income	5	(33)	(86)	5	(33)	(86)	Restructuring charges and other operating charges and income
Amortization of intangible assets acquired through business combinations	(223)	(239)	(271)	-	-	-	
Impairment losses of intangible assets acquired through business combinations	-	(170)	(25)	-	-	-	
EBIT	4,147	3,576	3,208	4,370	3,985	3,504	**EBITA**
				21.8%	*20.5%*	*19.6%*	***EBITA margin rate***
Income from equity affiliates	337	326	221	337	326	221	Income from equity affiliates
Interest	(203)	(218)	(406)	(203)	(218)	(406)	Interest
Income from investments	54	75	89	54	75	89	Income from investments
Other financial charges and income	311	619	1,226	-	-	-	
Earnings from continuing operations before provision for income taxes	4,646	4,378	4,338	4,558	4,168	3,408	**Adjusted earnings from continuing operations before provision for income taxes**
Provision for income taxes	547	(204)	(292)	(777)	(876)	(824)	Provision for income taxes
Earnings from continuing operations	5,193	4,174	4,046				
Earnings from discontinued operations	-	92	777				
Earnings	€ 5,193	€ 4,266	€ 4,823	€ 3,781	€ 3,292	€ 2,584	**Adjusted net income**
Attributable to :							*Attributable to :*
Equity holders of the parent	€ 4,033	€ 3,154	€ 3,767	€ 2,614	€ 2,218	€ 1,498	**Equity holders of the parent**
				13.0%	*11.4%*	*8.4%*	***Net margin rate***
Minority interests	1,160	1,112	1,056	1,167	1,074	1,086	Minority interests
Earnings, attributable to equity holders of the parent per share - basic (in euros)	€ 3.50	€ 2.74	€ 3.29	€ 2.27	€ 1.93	€ 1.31	**Adjusted net income, attributable to equity holders of the parent per share - basic (in euros)**
Earnings, attributable to equity holders of the parent per share - diluted (in euros)	€ 3.47	€ 2.72	€ 3.27	€ 2.25	€ 1.91	€ 1.30	**Adjusted net income, attributable to equity holders of the parent per share - diluted (in euros)**

Over the last three years, in addition to marked improvements in EBITA and Adjusted net income attributable to equity holders of the parent, the operating margin (EBITA divided by revenue) and the net margin (adjusted net income attributable to equity holders of the parent divided by revenue) also increased significantly. We believe that these improvements reflect the appropriateness of investment choices made by Vivendi Management and of the decision to focus on businesses generating the highest margins and cash flows.

In 2006, the operating margin was 21.8% (compared to 20.5% in 2005 and 19.6% in 2004), representing an improvement of 1.3 percentage points over 2005 and 2.2 percentage points over 2004, while the net margin was 13.0% (compared to 11.4% in 2005 and 8.4% in 2004), representing an improvement of 1.6 percentage points over 2005 and 4.6 percentage points over 2004.

3.2 2006 and 2005 earnings review

In 2006, **earnings attributable to equity holders of the parent** amounted to €4,033 million (representing basic earnings per share of €3.50 and €3.47 on a diluted basis), compared to €3,154 million for the year ended December 31, 2005 (representing basic earnings per share of €2.74 and €2.72 on a diluted basis), an increase of 27.9%.

In 2006, **adjusted net income attributable to equity holders of the parent** amounted to €2,614 million (representing basic adjusted earnings per share of €2.27 and €2.25 on a diluted basis), compared to €2,218 million for the year ended December 31, 2005 (representing basic adjusted earnings per share of €1.93 and €1.91 on a diluted basis), an increase of 17.9%.

A reconciliation of earnings attributable to equity holders of the parent with adjusted net income attributable to equity holders of the parent is presented in Note 8 to the Consolidated Financial Statements for the year ended December 31, 2006. In 2006, the difference between these two amounts was €1,419 million, and mainly included the gain resulting from the settlement of the tax dispute concerning the DuPont shares (€984 million) and the capital gain generated by the sale of Veolia Environnement shares (€832 million), offset by the capital loss incurred on the PTC shares (€496 million).

The €396 million improvement in **adjusted net income attributable to equity holders of the parent** was due to the following positive impacts:

- a €385 million increase from the growth in EBITA, attributable to SFR (+€161 million), Maroc Telecom (+€126 million), UMG (+€63 million), Vivendi Games (+€60 million) as well as Holding & Corporate (+€82 million) despite the downturn reported by the Canal+ Group (-€128 million). This downturn was primarily due to the recognition in 2006 of a portion of the costs of the Canal+ and TPS combination, expensed in the amount of €177 million; excluding these costs, the Canal+ Group would have reported an increase in EBITA of €49 million. In addition, Holding & Corporate EBITA includes a non-recurring gain of €56 million pursuant to the risk management of retirement pension obligations as well as the positive impact of (i) favorable litigation settlements and (ii) the recovery of a cash deposit which was initially recognized as an expense with respect to the TVT litigation. In 2005, SFR EBITA included the unfavorable impact of non-recurring losses of €115 million following the €220 million fine imposed by the French competition authorities, partially offset by non-recurring gains of €105 million;
- a €11 million increase in income from equity affiliates;
- a €15 million reduction in interest expense; and
- a €99 million reduction in tax expense.

These positive impacts were partially offset by the following negative items:

- a €21 million decrease in income from investments; and
- a €93 million charge related to the increase in the share of earnings attributable to minority interests.

Breakdown of the main items of the consolidated statement of earnings

Revenues increased to €20,044 million compared to €19,484 million in 2005, representing an increase of €560 million (2.9%). On a comparable basis[2], revenues amounted to €20,007 million compared to €19,374 million, representing an increase of 3.3% (3.3% at constant currency).

For a breakdown of revenues by business segment, please refer to Section 4 "Revenues, EBITA and cash flow from operations by business segment in 2006, 2005 and 2004".

Costs of revenues amounted to €10,146 million (compared to €9,898 million in 2005), representing an increase of €248 million.

Margin from operations increased from €9,586 million in 2005 to €9,898 million in 2006, representing an increase of €312 million, mainly due to Maroc Telecom (+€200 million) and Vivendi Games (+€148 million).

Selling, general and administrative expenses, excluding impairment losses on intangible assets acquired through business combinations were €5,533 million in 2006 compared to €5,568 million in 2005, representing an improvement of €35 million.

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[2] Comparable basis essentially illustrates the effect of the divestitures that occurred in 2005 and 2006 (mainly NC Numéricâble in 2005 and the Paris Saint-Germain soccer club (PSG) in 2006 at Canal+ Group) and includes the full consolidation of stakes in distribution subsidiaries at SFR as if these transactions had occurred as of January 1, 2005. Comparable basis results are not necessarily indicative of the results that would have occurred had the events actually occurred at the beginning of 2005.

Depreciation and amortization are part of either selling, general and administrative expenses or cost of revenues. Depreciation and amortization, excluding amortization of intangible assets acquired through business combinations, was €1,357 million compared to €1,286 million in 2005, representing an additional charge of €71 million. This increase is primarily due to major capital expenditures by SFR in order to improve the coverage and capacity of its 2G and 3G/3G+ networks.

Restructuring charges and other operating charges and income represented net income of €5 million compared to a net expense of €33 million in 2005. This €38 million increase was mainly attributable to capital gains realized on the sale of real estate. Restructuring costs (mainly at UMG and Maroc Telecom) were stable at approximately €50 million.

EBITA totaled €4,370 million compared to €3,985 million in 2005. On a comparable basis, EBITA increased by €381 million to €4,369 million, representing an increase of 9.6% (9.7% at constant currency), compared to €3,988 million in 2005. In 2006, with the exception of the Canal+ Group, each business unit recorded growth in its activities. Excluding the Canal+ Group and TPS combination costs (recognized for -€177 million in 2006), the Canal+ Group would also have recorded positive growth in its activities. The operating margin increased by 1.3 percentage points, from 20.5% in 2005 to 21.8% in 2006.

For a breakdown of EBITA by business segment, please refer to Section 4 "Revenues, EBITA and cash flow from operations by business segment in 2006, 2005 and 2004".

Amortization of intangible assets acquired through business combinations were €223 million in 2006, compared to €239 million in 2005, representing an improvement of €16 million.

Impairment losses on intangible assets acquired through business combinations were zero in 2006. In 2005, impairment losses totaled €170 million and mainly included the impact of balance sheet adjustments relating to the NBC Universal transaction (€124 million) and the write down of UMG goodwill (€48 million), recorded to offset the recognition of deferred tax assets in respect of ordinary tax losses not recognized at the end of 2000, as part of the UMG purchase price allocation.

EBIT amounted to €4,147 million compared to €3,576 million in 2005, representing an increase of 16.0%.

Income from equity affiliates totaled €337 million compared to €326 million in 2005, representing an increase of €11 million. The decrease in net income from NBC Universal (€301 million compared to €361 million in 2005) was more than offset by the increase in income from Neuf Cegetel (net income of €38 million compared to a net loss of €50 million in 2005).

Interest amounted to €203 million compared to €218 million in 2005, representing an improvement of €15 million. Borrowing costs increased as a result of an increase in the financing rate (4.20% compared to 3.92% in 2005), despite stable average outstanding borrowings (€6.7 billion, calculated on a daily basis), representing an additional charge of €24 million. This was more than offset by an increase in interest income on cash and cash equivalents (+€35 million).

Income from investments decreased by €21 million from €75 million in 2005 to €54 million in 2006. In 2006, this heading mainly comprises dividends from investments in non-consolidated companies of €36 million (€38 million in 2005), including Veolia Environnement and DuPont, both of which were sold during 2006. It also includes interest of €18 million (€37 million in 2005) received on long-term financial receivables. The net decrease in the amount for this line item is due to the repayment of certain receivables at the end of 2005 and during the course of 2006, including repayment of the Neuf Cegetel bonds.

Other financial charges and income generated net income of €311 million compared to €619 million in 2005, a decrease of €308 million. In 2006, this line item mainly includes the capital gain on the sale of Veolia Environnement shares (€832 million; please refer to Section 1.1.10), offset by the capital loss incurred on the PTC shares (€496 million; please refer to Section 1.1.5). This line item breaks down as follows:

- **Gain/(Loss) on the divestiture of financial investments** represented a net gain of €932 million in 2006 and mainly resulted from capital gains realized on the sale of Veolia Environnement shares (€832 million) and Sogecable shares (€66 million, contributed to Prisa in March 2006 as part of a partial tender offer). These gains were partially offset by losses on the divestiture of financial investments of €631 million, including capital losses incurred on the PTC shares (€496 million) and on the sale of the DuPont shares (€98 million). In 2005, net gains on the divestiture of financial investments totaled €490 million and resulted from the capital gains realized on the exchange of Sogecable shares (€256 million) as part of the repayment of convertible bonds and

on the early termination of the Veolia Environnement collar (€115 million), as well as the reversal of the provision against LBI Fund shares (€87 million). Capital losses on the divestiture of financial investments totaled €25 million in 2005.

- **Gain/(Loss) on the divestiture of businesses** represented a net gain of €189 million and mainly resulted from capital gains realized on the sale of 9.82% of the share capital of Canal+ France to Lagardère (€128 million ; please refer to section 1.1.1) and the residual investment in Ypso (€56 million). These gains were partially offset by **losses on the divestiture of businesses** of €104 million, including the additional provision (€54 million) recognized in connection with vendor warranties given as part of the sale of Xfera in 2003 and the capital loss realized on the sale of Paris Saint Germain soccer club (€23 million). In 2005, capital gains totaled €322 million and mainly resulted from the capital gain realized on the unwinding of IACI's investment in VUE (€194 million) and the sale of investments in Lagardère Thématiques (€26 million), Ypso (€29 million) and UCI (€34 million). Capital losses totaled €26 million and mainly resulted from the capital loss generated by the sale of Numéricâble (€13 million).

- **Financial component of costs related to employee benefit plans** totaled €32 million in 2006, compared to €35 million for the same period in 2005.

- **Impact of amortized cost on borrowings (including premiums incurred for early redemption)** was a charge of €26 million, compared to a charge of €115 million in 2005. This improvement was mainly due to the negative impact in 2005 (€71 million) of premiums incurred on the early redemption of certain notes.

- **Change in the fair value of derivative instruments** generated a net gain of €24 million in 2006, compared to a loss of €2 million in 2005. This improvement mainly reflects the change in fair value of interest rate swaps (+€17 million) in 2006, compared to the loss incurred in 2005 on the put option granted by SFR to SNCF on 35% of the share capital of Cegetel (€14 million), incurred prior to the contribution of Cegetel to Neuf Télécom.

- **Other** – In 2006, remaining other financial charges and income generated a net charge of €41 million, compared to net income of €10 million in 2005. This downturn of €51 million was mainly due to foreign exchange losses of €37 million.

Income taxes is a net income of €547 million, compared to a net charge of €204 million in 2005.

- The income taxes recorded in 2006 comprised of non-recurring items adjusting previous years' income tax (€1,380 million, compared to €305 million) which included, in particular, the gain related to the settlement of the DuPont litigation (€1,082 million), as well as the reversal of tax liabilities relating to risks extinguished over the period (€272 million, compared to €256 million in 2005).

- This income also includes tax savings generated by the Consolidated Global Profit Tax System (€561 million compared to €595 million in 2005). This amount includes current tax savings in respect of 2006 of €604 million, compared to €507 million in 2005, representing an increase of €97 million. Conversely, as of December 31, 2006, the deferred tax asset recorded in respect of expected tax savings in 2007 represented a charge of €43 million, compared to income of €88 million as of December 31, 2005, a decrease of €131 million. Expected savings in 2007 generated by the Consolidated Global Profit Tax System totaled €537 million compared to tax savings of €604 million in 2006. This decrease mainly results from the impact the combination costs associated with the Canal+ and TPS merger will have on Canal+ France's 2007 income tax calculation.

- In addition, income taxes reported in adjusted net income are a net charge of €777 million, compared to a net charge of €876 million in 2005, which represents an improvement of €99 million. A reconciliation of earnings attributable to equity holders of the parent with adjusted net income attributable to equity holders of the parent is presented in Note 8 to the Consolidated Financial Statements for the year ended December 31, 2006. In 2006, the difference between income taxes reported in net income compared to income taxes reported in adjusted net income amounted to €1,324 million (compared to €672 million in 2005). It mainly included non recurring items in the amount of €1,284 million (compared to €482 million in 2005), which were essentially comprised of the gain resulting from the settlement of the dispute concerning the DuPont shares (€1,082 million) and the reversal of tax liabilities relating to risks extinguished over the period (€218 million, compared to €300 million in 2005). It also included the change in the deferred tax asset relating to the tax savings generated by the Consolidated Global Profit Tax System (a decrease of €43 million compared to an increase of €88 million in 2005), as well as the tax effect related to other adjustments (€83 million, compared to €102 million in 2005), essentially comprised of the tax impact of the amortization of intangible assets acquired through business combinations.

In 2005, **Earnings from discontinued operations** totaled €92 million and comprised 72% of the charges and income generated by Cegetel up to August 22, 2005 and the capital gain recognized on the disposal of this company on this date (€121 million).

Earnings attributable to minority interests, mainly SFR and Maroc Telecom, amounted to €1,160 million in 2006 compared to €1,112 million in 2005. The increase in earnings attributable to the minority interests of SFR and Maroc Telecom, as a result of higher earnings at

these two businesses, was partially offset by the decrease resulting from the buyout of minority interests in UMG and NBC Universal in February 2006.

3.3 2005 and 2004 earnings review

In 2005, earnings attributable to equity holders of the parent decreased to €3,154 million (representing basic earnings per share of €2.74 and €2.72 on a diluted basis), compared to €3.767 million for the year ended December 31, 2004 (representing basic earnings per share of €3.29 and €3.27 on a diluted basis).

In 2005, adjusted net income attributable to equity holders of the parent amounted to €2,218 million (representing basic adjusted earnings per share of €1.93 and €1.91 on a diluted basis), compared to €1,498 million for the year ended December 31, 2004 (representing basic adjusted earnings per share of €1.31 and €1.30 on a diluted basis). The adjusted net income, attributable to equity holders of the parent compared to revenues reached 11.4% (compared to 8.4% in 2004).

Reconciliation of earnings attributable to equity holders of the parent with adjusted net income attributable to equity holders of the parent is presented in Note 8 of the notes to the Consolidated Financial Statements for the year ended December 31, 2006.

The improvement of adjusted net income attributable to equity holders of the parent i.e. €720 million (+48%) was due to the following positive impacts:

- +€481 million from growth in EBIT, notably due to a return to break-even at Vivendi Games (+€ 243 million), return to growth at UMG (+€89 million) as well as ongoing profitability at SFR (+€90 million despite negative net impact of -€115 million of non recurring items in 2005) and at Maroc Telecom (+€101 million);
- +€188 million from reduction in interest, resulting from the decrease in the average amount of borrowings as well as improved financing conditions;
- +€105 million from the increase in income from equity affiliates; and
- + €12 million from the decline in the stake of minority interests in earnings;

These positive effects were partially offset by the following items:

- - €52 million from higher provisions for income taxes as a result of the improvement in taxable earnings (UMG, SFR, Maroc Telecom), offset by tax savings resulting from the utilization of ordinary losses carried forward in France and in the United States; and
- - €14 million from the reduction in other income from ordinary activities.

Breakdown of the main items of the consolidated statement of earnings

In 2005, Vivendi's **consolidated revenues** amounted to €19,484 million compared to €17,883 million in 2004, representing an increase of €1,601 million. For an analysis of revenues by business segment, please refer to Section 4 "Revenues, EBITA and cash flow from operations by business segment in 2006, 2005 and 2004".

In 2005, **cost of revenues** amounted to -€9,898 million (compared to -€9,100 million in 2004), representing a €798 million increase. However, cost of revenues declined by €77 million when the 2005 rate (i.e. -€875 million[3]) is applied to estimated mobile-to-mobile sales in 2004.

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[3] *Mobile-to-mobile sales were not invoiced (income and expenses) between French mobile operators until December 31, 2004. They have been treated as an exchange of goods and services, the fair value of which was not determinable for the year ended December 31, 2004, and no revenues were recognized on these calls. Since 2005, these call terminations have been invoiced. For the year ended December 31, 2004, the impact of estimated mobile-to-mobile sales amounted to €875 million on revenues and to -€875 million on cost of revenues.*

Margin from operations increased by €803 million to reach €9,586 million in 2005, mainly due to the increased margin from operations at SFR, Vivendi Games and Maroc Telecom.

Selling, General and administrative expenses, excluding impairment losses of intangible assets acquired through business combinations, amounted to € 5,568 million compared to € 5,193 million in 2004, representing an increase of €375 million. This cost increase in 2005 was mainly due to the impact of the €220 million fine from the French Antitrust Council. Please refer to Note 30 to the Consolidated Financial Statements as of December 31, 2006.

Depreciation and amortization are part of either administrative and commercial expenses or cost of revenues. Depreciation and amortization, excluding impairment losses of intangible assets acquired through business combinations, amounted to -€1,286 million compared to -€1,383 million in 2004, representing a decrease of €97 million, due to scope changes at UMG (divestiture of CD and DVD manufacturing facilities in the United States and Germany in May 2005) as well as at the Canal+ Group (disposal of NC Numéricâble in March 2005) slightly offset by higher amortization costs at SFR, as a result of the commencement of the amortization period for the UMTS license beginning in the middle of June 2004.

Restructuring charges and other operating charges and income were -€33 million compared to -€86 million in 2004, representing a €53 million decrease. Restructuring costs (mainly Maroc Telecom and UMG) were -€51 million in 2005 and -€103 million in 2004.

EBITA amounted to €3,985 million compared to €3,504million in 2004.

This 13.7% increase (+€481 million) resulted from higher revenues (particularly at SFR, Maroc Telecom and Vivendi Games), combined with efficient cost control within the Group (mainly at SFR, Vivendi Games and UMG) and a reduction in restructuring costs (notably at UMG and Vivendi Games). In 2005, EBIT was negatively impacted by -€115 million as a result of the €220 million fine from the French Antitrust Council which was partly offset by the recording of favorable non-recurring items of €105 million. In 2004, EBIT included non-recurring costs associated with product cancellations and the write-off of certain titles at Vivendi Games. EBITA compared to revenues reached 20.5% compared to 19.6% in 2004. For an analysis of earnings from operations by business segment, please refer to Section 4 "Revenues, EBITA and cash flow from operations by business segment in 2006, 2005 and 2004".

Amortization of intangible assets acquired through business combinations amounted to -€239 million compared to -€271 million in 2004, representing a €32 million decrease and consists of amortization of music catalogs for -€201 million (-€233 million in 2004).

Impairment losses of intangible assets acquired through business combinations (previously referred to as Other charges from ordinary activities"), amounted to -€170 million compared to -€25 million in 2004, representing a €145 million increase. In 2005, such impairment losses essentially included non-cash adjustments relating to the NBC Universal transaction (€124 million) as well as exceptional goodwill amortization (-€48 million) at UMG, which was recorded to offset the activation of the deferred tax asset related to ordinary losses carry forward not recognized at the end of 2000 on the purchase price allocation of UMG.

EBIT was €3,576 million, compared to €3,208 in 2004, representing a 11.5% increase.

Income from equity affiliates amounted to €326 million compared to €221 million in 2004, representing an increase of €105 million, including €156 million related to VUE / NBC Universal. Specifically it included Vivendi's equity interest in twelve months of 2005 NBC Universal (NBCU) earnings (€361 million) compared to 234 days of NBCU earnings and 132 days of 20% of VUE's earnings in 2004 (NBCU was created through the combination between NBC and VUE as of May 11, 2004) and VUE equity in 2004. In addition, during 2005, income from equity affiliates included €50 million in Neuf Cegetel losses compared to -€22 million in Cegetel S.A.S. losses in 2004.

Interest amounted to -€218 million compared to -€406 million in 2004, representing an improvement of €188 million. The average amount of borrowings (calculated on a daily basis) decreased to €6.7 billion in 2005, compared to €8.9 billion in 2004. This decrease was mainly due to the impact of the implementation of the divestiture plan, and in particular the divestiture of VUE to NBCU in May 2004.

In 2005, average borrowing costs strongly decreased to 3.92% from 5.01% in 2004. The interest decrease resulted from the combined effect of the redemption of the High Yield Notes (83% in June 2004 and the balance in January 2005), funded by the proceeds from the NBCU transaction as well as the new credit facilities obtained on better financial terms in 2004 and 2005 as a result of the upgrade of Vivendi's credit rating to Investment Grade in 2004. Please refer to Section 5 "Liquidity Management and Capital resources in 2006 and 2005".

In March 2005, Vivendi completed its plan to unwind interest rate swaps without cash consideration, which represented a charge of -€84 million for the full year of 2004.

Income from investments (previously presented in "Other income from ordinary activities") amounted to €75 million compared to €89 million in 2004, representing a decrease of €14 million. In 2005, other income from ordinary activities mainly included €38 million of dividends received from unconsolidated companies (compared to €23 million in 2004) including Veolia Environnement, previously equity-accounted, and €37 million of interest income received for long-term financial receivables (compared to €66 million in 2004). The decrease in interest income resulted from the fact that Vivendi ceased to record interest related to the Elektrim Telekomunikacja's loan, due to the company's situation. Please refer to Notes 2.4 and 30 to the Consolidated Financial Statement as of December 31, 2006.

Other financial charges and income generated an income of €619 million compared to €1,226 million income in 2004, representing a decrease of €607 million.

Other financial charges and income mainly included capital gains/losses on the divestiture of businesses or financial investments, the financial component of costs related to employee benefit plans, the amortized cost on borrowings (including premiums incurred for early redemption of borrowings and for the unwinding of derivative instruments), changes in value of derivative instruments and gains/losses on foreign currency translations (other than gains/losses on foreign currency translations on operating activities, recorded in earnings from operations).

- **Gain/(loss) on the divestiture of financial investments.** Gains on the divestiture financial investments amounted to €490 million and resulted mainly from the capital gain on the exchange of Sogecable shares related to the redemption of the Sogecable bonds (+€256 million), the financial gain on early termination of the collar on the 5% stake in Veolia Environnement (+€115 million) as well as the reversal of the provision against the LBI Fund shares (€87 million). Capital losses amounted to -€25 million. In 2004, capital gains amounted to €72 million and mainly included the financial gain on the divestiture of the stake in Viva Media (+€26 million) and capital losses were zero.

- **Gain/ (loss) on the divestiture of businesses.** Gains on the divestiture of businesses amounted to €322 million and resulted mainly from the gains related to the unwinding of IACI's interest in VUE (+€194 million), to the divestiture of Vivendi's stake in Lagardère Thématiques (+€26 million), as well as, the capital gain on the divestiture of remaining assets at UCI (+€34 million). Capital losses amounted to -€26 million. In 2004, capital gains amounted to €1,774 million and resulted mainly from the impact of the divestiture of 15% of Veolia Environnement, part of Vivendi's 20.3% stake (+€1,403 million), various liquidation bonuses (+€74 million), the capital gain on the divestiture of the "flux-divertissement" business of StudioExpand and Canal+ Benelux (+€65 million), certain UCI assets (+€64 million), Kencell (+€39 million) and Sportfive (+€38 million) and the impact of the abandonment of Internet operations (+€34 million). Capital losses amounted to -€108 million and mainly resulted from the losses recorded on the NC Numéricâble divestiture (-€56 million).

- **The financial component of costs related to employee benefit plans** remained almost flat at -€35 million compared to -€37 million in 2004.

- **Impact of amortized cost on borrowings (including premiums incurred for early redemption).** The impact of amortized cost on borrowings was a charge of €115 million (compared to a charge of €486 million over the same period in 2004). This improvement was due to the large number of early redemptions of borrowings in 2004 following the NBCU transaction. These early redemptions generated exceptional costs in 2004 and lower recurring costs in 2005 as the total amount of borrowings declined. Premiums incurred for early redemption of notes and other financial liabilities represented a charge of €71 million as of December 31, 2005, compared to a charge of €308 million as of December 31, 2004, corresponding to the premium paid (including accrued interests) on the early redemption of 83% of the High Yield Notes in June 2004. 2005 included a charge of €50 million incurred for the redemption of the remaining High Yield Notes at the end of January 2005. In addition, the early redemption of the bonds exchangeable into Vinci shares in the course of March 2005 resulted in a charge of €27 million. In 2005, the impact of amortized cost on borrowings represented a charge of €44 million (compared to a charge of €178 million as of December 31, 2004, which included an exceptional charge of €53 million due to the redemption of credit lines after the NBCU transaction).

- **Changes in value of derivative instruments.** The depreciation of derivative instruments represented a loss of €2 million. The depreciation of derivative instruments represented a loss of €10 million in 2004. This change was due to:

  - the early termination in 2005 of the collar on the 5% stake in Veolia Environnement, representing an upside adjustment of €25 million;

  - the upside adjustment of the value of the embedded option on the bonds exchangeable into Sogecable shares (+€16 million in 2005), corresponding to the portion of the bonds which was not exchanged in the fourth quarter of 2005, compared to a downside adjustment of -€11 million in 2004;

- the smaller downside adjustment of the value of the put option granted to SNCF on 35% of the capital of Cegetel S.A.S. exercised on August 22, 2005 (-€14 million as of December 31, 2005, compared to -€35 million as of December 31, 2004);
- in 2004, downside adjustments were partly offset by the upside adjustment of the value of the interest rate swaps without cash consideration (+€18 million).

Provision for income taxes amounted to -€204 million compared to -€292 million in 2004. The effective tax rate amounted to 4.7% in 2005, compared to 6.7% in 2004. Excluding the impact of non recurring items, the effective tax rate reached 21% in 2005, versus 24% in 2004.

Excluding the impact of non recurring tax items and taxes related to non recurring items (change in deferred tax assets, reversal of deferred tax liabilities relating to tax years no longer open to audit, etc.), the tax expense increased by €52 million, due to higher taxable earnings (UMG, SFR and Maroc Telecom). This increase was offset by tax savings resulting from the utilization of ordinary losses carried forward (mainly in France, including the impact of the Consolidated Global Profit Tax System, and in the United States).

In 2005, the impact of the Consolidated Global Profit Tax System was expected tax savings in fiscal year 2005 of €507 million recorded by Vivendi S.A., compared to expected tax savings in fiscal year 2004 of €464 million. This +€43 million improvement mainly resulted from an increase of SFR's taxable earnings. In addition, as of December 31, 2005, deferred tax assets recorded for 2006 expected tax savings amounted to €580 million, compared to €492 million deferred tax assets recorded in 2004 for 2005 expected tax savings, representing a change of +€88 million in deferred tax assets.

Earnings from discontinued operations generated a profit of +€92 million equal to 72% of the charges and income generated by Cegetel over the period, (i.e., -€29 million) (the residual 28% being classified in income from equity affiliates) and to the capital gain generated by the divestiture (€121 million) of Cegetel. In accordance with IFRS 5, following the Cegetel-Neuf Telecom combination announced on May 11, 2005, and closed on August 22, 2005, Cegetel qualified as a discontinued operation.

In 2004, earnings from discontinued operations amounted to +€777 million resulting mainly from the divestiture of VUE on May 11, 2004. This amount was comprised of 80% of €132 million of charges and income generated by VUE over the period (the residual 20% being classified in income from equity affiliates) and the €707 million capital gain generated by the divestiture.

Earnings attributable to minority interests, mainly of SFR and Maroc Telecom, amounted to €1,112 million compared to €1,056 million in 2004. The decline resulting from the acquisition of an additional 16% stake in Maroc Telecom by Vivendi in January 2005 was more than offset by the increase of SFR's earnings attributable to minority interests as a result of increased earnings at SFR.

4 Revenues, EBITA and cash flow from operations by business segment in 2006, 2005 and 2004

4.1 Revenues, EBITA and cash flow from operations as Published by Business Segment in 2006, 2005 and 2004

AS PUBLISHED							
	Year Ended December 31,						
(In millions of euros)		2006		2005	% Change		2004
Revenues							
Universal Music Group	€	4,955	€	4,893	1.3%	€	4,989
Vivendi Games		804		641	25.4%		475
Canal+ Group		3,630		3,452	5.2%		3,560
SFR		8,678		8,687	-0.1%		7,192
Maroc Telecom		2,053		1,860	10.4%		1,581
Non core operations and elimination of inter segment transactions		(76)		(49)	-55.1%		86
Total Vivendi	€	**20,044**	€	**19,484**	**2.9%**	€	**17,883**
EBITA							
Universal Music Group	€	744	€	681	9.3%	€	592
Vivendi Games		115		55	109.1%		(188)
Canal+ Group		75		203	-63.1%		188
SFR		2,583		2,422	6.6%		2,332
Maroc Telecom		912		786	16.0%		685
Holding & Corporate		(113)		(195)	42.1%		(193)
Non core operations		54		33	63.6%		88
Total Vivendi	€	**4,370**	€	**3,985**	**9.7%**	€	**3,504**
EBITA / Revenues (%)		***21.8%***		***20.5%***	***+1.3 pt***		***19.6%***
Cash flow from operations (CFFO)							
Universal Music Group	€	720	€	600	20.0%	€	755
Vivendi Games		115		127	-9.4%		(18)
Canal+ Group		261		285	-8.4%		674
NBC Universal dividends		262		346	-24.3%		357
SFR		2,430		2,268	7.1%		2,242
Maroc Telecom		943		755	24.9%		707
Holding & Corporate		(279)		(241)	-15.8%		(387)
Non core operations		14		17	-17.6%		24
Total Vivendi	€	**4,466**	€	**4,157**	**7.4%**	€	**4,354**

4.2 Revenues, EBITA and cash flow from operations on a comparable basis by Business Segment in 2006 and 2005

Comparable basis essentially illustrates the effect of the divestiture of operations that occurred in 2005 and 2006 (mainly NC Numéricâble in 2005 and the Paris Saint-Germain soccer club (PSG) in 2006 by the Canal+ Group, and includes the full consolidation of distribution subsidiaries at the level of SFR, as if these transactions had occurred as of January 1, 2005. Comparable basis results are not necessarily indicative of the results that would have occurred had the events actually occurred at the beginning of 2005.

COMPARABLE BASIS (UNAUDITED)				
	Year Ended December 31,			
(In millions of euros)	2006	2005	% Change	% Change at constant currency
Revenues				
Universal Music Group	€ 4,955	€ 4,893	1.3%	1.5%
Vivendi Games	804	641	25.4%	26.1%
Canal+ Group	3,593	3,336	7.7%	7.5%
SFR	8,678	8,693	-0.2%	-0.2%
Maroc Telecom	2,053	1,860	10.4%	10.2%
Non core operations and elimination of inter segment transactions	(76)	(49)	-55.1%	-55.1%
Total Vivendi	€ 20,007	€ 19,374	3.3%	3.3%
EBITA				
Universal Music Group	€ 744	€ 681	9.3%	10.2%
Vivendi Games	115	55	109.1%	109.1%
Canal+ Group	74	206	-64.1%	-64.1%
SFR	2,583	2,422	6.6%	6.6%
Maroc Telecom	912	786	16.0%	15.8%
Holding & corporate	(113)	(195)	42.1%	42.5%
Non core operations	54	33	63.6%	64.9%
Total Vivendi	€ 4,369	€ 3,988	9.6%	9.7%
EBITA / Revenues (%)	*21.8%*	*20.6%*	*+1.2 pt*	
Flux nets de trésorerie opérationnels (CFFO)				
Universal Music Group	€ 720	€ 600	20.0%	
Vivendi Games	115	127	-9.4%	
Canal+ Group	280	304	-7.9%	
Dividends NBC Universal	262	346	-24.3%	
SFR	2,430	2,268	7.1%	
Maroc Telecom	943	755	24.9%	
Holding & corporate	(279)	(241)	-15.8%	
Non core operations	14	17	-17.6%	
Total Vivendi	€ 4,485	€ 4,176	7.4%	

4.3 Comments on Revenues, CFFO and EBITA for Controlled Business Segments

4.3.1 UNIVERSAL MUSIC GROUP (UMG) (100% VIVENDI ECONOMIC INTEREST[4]):

	Year ended December 31, As published				
(in millions of euros, except for margins)	2006	2005	% change	% change at constant currency	2004
Revenues					
North America	€ 2,117	€ 2,091	1.2%	0.8%	2,006
Europe	1,845	1,821	1.3%	1.1%	2,003
Asia	436	425	2.6%	7.2%	455
Rest of the world	194	207	-6.3%	-4.1%	191
	4,592	4,544	1.1%	1.3%	4,655
Publishing	406	392	3.6%	3.3%	372
Elimination of intercompany transactions	(43)	(43)	0.0%	1.7%	(38)
Total UMG	**€ 4,955**	**€ 4,893**	**1.3%**	**1.5%**	**4,989**
EBITA	**€ 744**	**€ 681**	**9.3%**	**10.2%**	**592**
EBITA / Revenues (%)	***15.0%***	***13.9%***	***+1.1 pt***		***11.9%***
Modified EBITDA	**€ 811**	**€ 760**	**6.7%**	**7.5%**	**764**
Cash flow from operations (CFFO)	**€ 720**	**€ 600**	**20.0%**		**755**

Best-selling titles (physical units sold, in millions)

Artist	Units	Artist	Units	Artist	Units
U2	4	Mariah Carey	8	Eminem	9
Andrea Bocelli	3	50 Cent	8	U2	8
Snow Patrol	3	Black Eyed Peas	7	Shania Twain	5
The Pussycat Dolls	3	Eminem	5	Guns N'Roses	5
Nelly Furtado	3	Gwen Stefani	4	Black Eyed Peas	4
The Killers	3	Kanye West	4	Nelly (Suit)	4
Rihanna	3	Jack Johnson	4	Ashlee Simpson	4
Nickelback	3	The Game	3	D-12	3
Fergie	2	Nickelback	3	Kanye West	3
Jay-Z	2	NOW 20	3	Keane	3
Black Eyed Peas	2	The Killers	3	NOW 16	3
Scissor Sisters	2	Bon Jovi	3	Toby Keith	3
Hinder	2	OST "Get Rich Or Die Tryin"	2	George Strait	3
Ne-Yo	2	The Pussycat Dolls	2	Hoobastank	3
Jack Johnson & Friends	2	Fallout Boy	2	Gwen Stefani	2
% of top 15 of total units sold by UMG	**9%**		**13%**		**13%**

2006 versus 2005

Revenues

Global music market conditions were difficult in 2006 with all the major music markets expected to report year-on-year declines despite strong digital sales growth. The International Federation of the Phonographic Industry (IFPI) estimated that digital music sales nearly doubled in 2006

[4] *In February 2006, Vivendi increased its economic interest in UMG from 92% to 100% as a result of the acquisition from MEI of an approximate 7.7% minority interest in Universal Studios Holding I Corp.*

to approximately US$2 billion with strong growth in both the online and mobile sectors. For the first six months of the year, the IFPI reported that the global music market declined 4% with strong growth in the digital sector offset by a 10% drop in physical sales.
UMG's revenues of €4,955 million were 1.3% above last year (1.5% on a constant currency basis) driven by strong digital sales growth, higher license income in the U.S. due in part to legal settlements and strong sales growth in the U.K. and Japan.

Music Publishing revenues grew 3.3% on a constant currency basis. Digital sales were €477 million with strong growth in all markets and sectors. Digital revenues were up 84% versus last year and represented 9.6% of total revenues.

Best sellers for the year included new releases from U2, Andrea Bocelli, Snow Patrol, Nelly Furtado and The Killers in addition to strong carryover sales from The Pussycat Dolls. Regional best sellers included Scissor Sisters, Take That, James Morrison and Razorlight in Europe and Spitz, Samsons and Masaharu Fukuyama in Asia. Other regional best sellers were Australia's Wolfmother and Brazil's Kid Abelha.

EBITA

UMG's EBITA of €744 million was 9.3% higher than last year, up 10.2% on a constant currency basis. Improved margins on higher sales, legal settlements and the recovery of a previously expensed cash deposit in the TVT matter offset increased marketing, artist and repertoire (A&R) costs of local artists.

Cash flow from operations (CFFO)

Cash Flow from Operations of €720 million was up from last year due to the favorable timing of payments of certain major accounts payable and receivable and the return of the deposit from the TVT matter. Cash flow also benefited from advance payments received in respect of license agreements, legal settlements and the proceeds from asset sales. In 2005, cash flow was adversely impacted by the externalization of pension obligations in Germany, partly offset by the proceeds from various asset disposals.

2005 versus 2004

Revenues

UMG estimates that the global music market declined by 2% in 2005 with a 6% decline in physical music sales partly offset by strong growth in the digital sector. The IFPI reported that sales of music via the Internet and mobile phones were $1.1 billion for the record industry in 2005, compared to $380 million in 2004. For the first six months of the year, according to the IFPI, the global music market declined by 1.9% with higher digital sales nearly offsetting a 6% decrease in physical music sales.

In the US, total album unit sales for the industry as measured by SoundScan decreased by 7.2%, while sales of digital tracks increased from 141 million in 2004 to 353 million in 2005. In 2005, UMG outperformed the market with a 2-basis point increase in market share reaching an unprecedented 31.7%. UMG had the top two best-selling albums of the year with Mariah Carey and 50 Cent and seven of the top 10.

UMG's revenues amounted to €4,893 million. Excluding UMG's music clubs in the United Kingdom and in France divested in 2004, UMG's revenues increased by 1.6% at constant currency, with growth in North America and music publishing offsetting weakness in Asia. Digital sales were €259 million, nearly three times the number of 2004 sales, and represented 5.3% of UMG's total revenues. There was strong growth in both the on-line and mobile sectors.

Best-sellers in 2005 included new releases from Mariah Carey, 50 Cent, Black Eyed Peas, Eminem, Kanye West and Jack Johnson in addition to very strong carryover sales from Gwen Stefani. Other best-sellers were debut releases from The Game, The Pussycat Dolls, Fall Out Boy, Akon and the U.K.'s Kaiser Chiefs. Regional best sellers included Latin artists Juanes and Daddy Yankee, Germany's Rammstein, Brazil's Ivete Sangalo and France's Chimène Badi.

EBITA

EBITA increased to €681 million, representing a 14.4% increase at constant currency. This increase reflects higher sales volumes, continued cost savings efforts and lower restructuring charges in 2005.

UMG artists dominated the best seller lists in their major markets, topping all the major music genres which enabled UMG to gain market share and lead the competition by earning an unprecedented 40 Grammy awards which represents the diversity and vitality of UMG's portfolio.

Cash flow from operations (CFFO)

Cash flow from operations of €600 million decreased compared to 2004 due to the timing of working capital movements over the financial year-end and the externalization of pension obligations in Germany partly offset by lower restructuring costs and the proceeds from various asset divestitures in 2005.

4.3.2 VIVENDI GAMES (100% VIVENDI ECONOMIC INTEREST[5]):

(in millions of euros, except for margins)	As published – Year ended December 31, 2006	2005	% change	% change at constant currency	2004
Revenues	€ 804	€ 641	25.4%	26.1%	475
EBITA	€ 115	€ 55	109.1%	109.1%	(189)
EBITA / Revenues (%)	14.3%	8.6%	+5.7 pts		na*
Modified EBITDA	€ 155	€ 86	80.2%	80.6%	(113)
Cash flow from operations (CFFO)	€ 115	€ 127	-9.4%		(18)
<u>% sales</u>					
PC	8%	17%			46%
Console	31%	34%			48%
Online games and other	61%	49%			6%
<u>Breakdown of revenues by geographical area</u>					
North America	51%	53%			56%
Europe	35%	33%			34%
Asia pacific and rest of the world	14%	14%			10%
<u>Best-selling titles</u>					
	. *World of Warcraft*	. *World of Warcraft*			. *Half-Life 2*
	. *Scarface*	. *50 Cent: Bulletproof*			. *Simpsons: Hit and Run*
	. *Ice Age 2*	. *Crash Tag Team Racing*			. *Crash Twinsanity*
	. *Eragon*	. *Robots*			. *World of Warcraft*
	. *The Legend of Spyro*	. *F.E.A.R.*			. *Spyro: A Hero's Tail*
	. *F.E.A.R.*	. *Hulk II*			
	. *50 Cent : Bulletproof*				

na* = not applicable

2006 versus 2005

Revenues

Vivendi Games' 2006 revenues of €804 million were 25.4% higher than the prior year (up 26.1% on a constant currency basis). This increase was primarily driven by the continued worldwide success of *World of Warcraft*, the critically acclaimed subscription-based, massively multiplayer online role-playing game (MMORPG) from Blizzard Entertainment.

During 2006, *World of Warcraft* continued its strong growth in all regions, reaching more than 8 million players worldwide; this includes over 2 million in North America, over 1.5 million in Europe and more than 3.5 million in China. Since debuting in North America in November 2004, *World of Warcraft* has become the most popular MMORPG in the world. It is available in six different languages and is played in North America, Europe, mainland China, Korea, Australia, New Zealand, Singapore, and the regions of Taiwan, Hong Kong and Macau.

Other solid performers in 2006 included the new releases *Scarface: The World is Yours*, developed internally by Sierra's internal studio Radical Entertainment, as well as *Ice Age 2, The Legend of Spyro: A New Beginning* , *Eragon* (inspired from the Fox movie), and *F.E.A.R.* (for Xbox 360).

Also during 2006, Vivendi Games launched two new divisions: Vivendi Games Mobile and Sierra Online. Vivendi Games Mobile creates and publishes games for the worldwide mobile market. The division has a global presence, with its headquarters, operations and an internal development team in Paris and US-based teams in Los Angeles and San Mateo, CA. Sierra Online creates and publishes quality short- and mid-session, casual online games for PC, Xbox Live® Arcade and all other viable platforms. Sierra Online runs a global business which includes regional studios in Santiago, Chile; Seattle, Washington; and Shanghai, China. In December 2006, Sierra Online launched its first

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[5] *In February 2006, Vivendi increased its economic interest in Vivendi Games from 99% to 100% as a result of the acquisition from MEI of an approximate 7.7% minority interest in Universal Studios Holding I Corp.*

title *Assault Heroes* for Microsoft's Xbox Live® Arcade. *Assault Heroes* was awarded Xbox Live Arcade Game of the Year by IGN.com, the Internet's number one videogame information site.

EBITA

Vivendi Games' EBITA amounted to €115 million, a 109.1% increase compared to 2005 EBITA of €55 million (same increase on a constant currency). This significant improvement was driven by growth in revenues, with a large proportion relating to the higher margin of the *World of Warcraft's* exceptional worldwide success (+2.4 million incremental subscribers during 2006). Additional products contributing to the strong performance included the new releases *Scarface: The World is Yours, Ice Age 2, The Legend of Spyro: A New Beginning, Eragon* and *F.E.A.R.* (for Xbox 360). EBITA was also impacted by increased product development costs linked to the continued build-out of staff and capabilities at Sierra's internal studios (Radical, High Moon, Swordfish and Massive) and expenses linked to the launches of the new Sierra Online and Vivendi Games Mobile divisions.

Cash flow from operations (CFFO)

Vivendi Games's cash flow from operations was €115 million compared to €127 million in 2005. The increase of €69 million in EBITDA was mainly offset by an increased investment in capital expenditures to support Blizzard Entertainment's *World of Warcraft* capacity as the customer base continues to expand, plus an increase in advances to external developers for Sierra's future projects.

2005 versus 2004

Revenues

In 2005, Vivendi Games' revenues amounted to €641 million, a 34.9% increase compared to 2004 (a 34.6% increase at constant currency). This increase was driven by the MMORPG *World of Warcraft* as well as the very strong performance of the fourth quarter release *50 Cent: Bulletproof*, the gritty urban action game starring multi-platinum recording artist 50 Cent. Other top sellers during 2005 included the new releases *Robots, Hulk II, F.E.A.R.*, which was named "Best Action Game of E3 2005" by the E3 Critics, *Crash Tag Team Racing* and strong sales in North America from the distribution of *Delta Force: Black Hawk Down* and *FlatOut*.

During 2005, *World of Warcraft* was successfully launched in several key territories, including South Korea (January), Europe (February), China (June) and Taiwan (November) and continued its strong growth in North America following its commercial launch in late 2004. *World of Warcraft* continues to be the fastest-growing game in its category, totaling more than 5.5 million customers globally via directly managed operations in North America, Europe and South Korea and licensed operations in China and Taiwan.

EBITA

In 2005, Vivendi Games' EBITA amounted to €55 million, a €244 million increase compared to a loss of €189 million (€244 million at constant currency) in 2004.

This improvement in EBITA was the result of a three-pronged strategy to enter the MMORPG category through Blizzard, reshape the Sierra portfolio and significantly cut operating costs. Additional releases contributing to the strong performance included *50 Cent: Bulletproof, Robots, Hulk II, F.E.A.R.* and *Crash Tag Team Racing* as well as the North American distribution of *Delta Force: Black Hawk Down* and *FlatOut*. However, EBITA included increased product development costs linked to recently acquired studios (Radical, Swingin' Ape, Swordfish and High Moon).

Cash flow from operations (CFFO)

Vivendi Games' cash flow from operations was €127 million compared to negative cash flow of -€18 million in 2004. Aside from the restored positive EBITDA impact, the subscription based *World of Warcraft* growth has significantly increased the conversion of EBITDA into cash. 2004 cash flow from operations did not fully benefited from the increase in cash arising from the successful launch of *World of Warcraft*, as well as from *Half Life 2*, due to their late release date.

4.3.3 THE CANAL+ GROUP (100% VIVENDI ECONOMIC INTEREST[6]):

	Year ended December 31,				
	As published			Comparable basis (unaudited) (a)	As published
(in millions of euros, except for margins)	2006	2005	% change	% change	2004
Revenues					
Pay-TV – France (b)	€ 3,001	€ 2,758	8.8%	8.9%	€ 2,660
Other core operations (c)	592	579	2.2%	2.2%	551
Other (d)	37	115	-67.8%	na*	349
Total Canal+ Group	**3,630**	**3,452**	**5.2%**	**7.7%**	**3,560**
EBITA	**75** (e)	**203**	**-63.1%**	**-64.1%**	**188**
EBITA / Revenues (%)	***2.1%***	***5.9%***	***-3.8 pts***		***5.3%***
Modified EBITDA	€ **239** (e)	€ **369**	**-35.2%**	**-33.1%**	€ **404**
Cash flow from operations (CFFO)	€ **261**	€ **285**	**-8.4%**	**-7.9%**	€ **674**
Subscriptions (in thousands)					
Analog	1,902	2,278	-16.5%		2,455
Digital	2,612	2,186	19.5%		1,917
Individual subscribers	4,514	4,464	1.1%		4,372
Collective	425	407	4.4%		395
Overseas (individual and collective)	198	190	4.2%		188
Total Canal+ (premium channel)	5,137	5,061	1.5%		4,955
CanalSat	3,464	3,192	8.5%		2,989
NC Numéricâble	-	-	-		436
Total subscriptions in France	**8,601**	**8,253**	**4.2%**		**8,380**

na: not applicable.*

(a) Comparable basis essentially illustrates the effect of the divestitures of the Canal+ Group (NC Numéricâble in March 2005 and PSG soccer club in 2006) as if these transactions had occurred as of January 1, 2005.

(b) Since the beginning of 2006 revenues of the French pay-TV division corresponds to Canal+ France which mainly includes to this date, Canal+ SA, CanalSat, Canal+ Distribution, Multithématiques and Media Overseas. Information provided for 2005 and 2004 is consistent.

(c) "Other core operations" line shows activities from StudioCanal, pay-TV activities in Poland (Cyfra+), Canal+ Régie and i>Télé.

(d) "Other" includes companies that have been or are in the process of being sold, mainly NC Numéricâble, PSG (until June 2006) and residual activities of Expand sub group.

(e) Includes combination costs of Canal+ and TPS for -€177 million.

2006 versus 2005

Revenues

The Canal+ Group's 2006 revenues amounted to €3,630 million. On a comparable basis, revenues were up €257 million, or +7.7% compared to 2005.

<u>*Pay-TV in France*</u>

[6]As of December 31, 2006, the Canal+ Group held 90% of the French pay-TV division following the acquisition by Lagardère of 9.82% of Canal+ France in December 2006. Following the combination of the Canal+ Group and TPS in "Canal+ France" and the acquisition by Lagardère of a stake of 20% in this entity on January 4, 2007, the Canal+ Group holds a 65% equity interest in "Canal+ France". Please refer to section 1 and to Note 2 of the notes to the Consolidated Financial Statement for the year ended December 31, 2006.

On a comparable basis, revenues from pay-TV operations in France were up €244 million, or +8.9% compared with 2005, mainly due to increased subscriptions of the Group's attractive offers in a very competitive market, as well as increased revenue per subscriber.

The Canal+ Group's total portfolio as of December 31, 2006, included over 8.6 million subscriptions (individual and collective, in France and overseas) for its pay-TV offers. Net additions over the year totaled 350,000 subscriptions, with 1.155 million gross additions.

Total subscriptions to Canal+ at year-end 2006 reached 5.14 million, representing a net increase of 76,000 compared with year-end 2005. The proportion of Canal+ Le Bouquet subscriptions reached 61% of total Canal+ subscriptions at year-end 2006, a 52% increase compared to year-end 2005. In 2006, Canal+ recruitments reached 646,000 in total, an improvement compared to 2005 recruitments which were the best since 1987.In 2006, the Canal+ churn rate was 11.95%, still among the lowest in Europe.

CanalSat total subscriptions were 3.46 million by year-end, which represents a net increase of 272,000, compared with 2005. In 2006, CanalSat gross additions hit 510,000 subscriptions, up 6% compared with 2005. In 2006, CanalSat's churn rate was 10.6%.

Other core operations

Revenues from the Canal+ Group's other operations grew +2.2% compared to 2005. StudioCanal posted lower revenues (mainly due to decreased income from the Working Title deal) despite good performances in France, where the company ranked third best movie distributor in box-office sales due to the release of *Indigène* and *Prête-moi ta main*. This overall decrease was offset by higher advertising revenues from i>Télé and subscription portfolio growth in Poland.

Since January 4, 2007, the Canal+ Group's pay-TV operations include TPS, whose portfolio ended the year with 1.44 million subscriptions. The total subscriptions of the Canal+ Group stood at more than 10 million at the beginning of 2007.

EBITA

Canal+ Group's EBITA grew sharply to €251 million, excluding transition costs linked to the TPS merger. On a comparable basis, EBITA is up 21.8% compared with 2005. After taking into account transition costs amounting to €177 million, EBITA totaled €74 million.

Pay-TV in France

On a comparable basis, pay-TV operations in France posted a +46% increase in EBITA year-on-year, excluding transition costs. This strong performance was achieved due to portfolio growth and increased revenue per subscriber, combined with reduced subscriber acquisition costs, and despite higher soccer costs (up €143 million versus 2005).

Other core operations

The Group's other operations were slightly down due to non-recurring items in Poland in 2005 and the switch of i>Télé to free-to-air broadcasting, which were not completely offset by positive results at StudioCanal.

Cash flow from operations (CFFO)

Full year 2006 CFFO for the Canal+ Group was €261 million, compared with €285 million for 2005. The French Pay-TV business' growing revenues were offset to a large extent by an increase in sport rights payments primarily due to payments on French L1 rights, higher investments in decoders on DTT and HD and in subscriber management tools and increased investments in coproductions by StudioCanal.

2005 versus 2004

Revenues

The Canal+ Group reported revenues of €3,452 million. Excluding "Other" revenues, which represent products and services sold between 2004 and 2006, revenues were up €126 million or 3.9% compared to 2004.

Pay-TV in France

On a comparable basis, revenues from Pay-TV operations in France were up €98 million or 3.7% compared with year-end 2004, due to increased revenue per subscriber and a larger subscription base.

As of December 31, 2005, the group's total portfolio reached 8.25 million subscriptions. Excluding NC Numéricâble, net additions over the year were approximately 310,000. In 2005, the Canal+ Group achieved over 1.1 million gross additions, up 13% compared with 2004, including approximately 640,000 additions to Canal+ which posted its best recruitment period since 1987.

Total subscriptions to Canal+ at year-end reached 5.06 million, up 105,000 compared with December 2004. This was more than twice the growth achieved in 2004. The churn rate stood at 11.4%. Launched in March 2005, Canal+ Group's premium channel package, Canal+ Le Bouquet, represented more than 52% of total Canal+ subscriptions at the end of 2005.

As of December 31, 2005, CanalSat subscriptions reached 3.19 million, up approximately 205,000, compared with 2004. Over the year, CanalSat recruited over 480,000 new subscribers (up 8% compared with 2004), while maintaining a churn rate slightly below 10%.

Other core operations

Other Canal+ Group operations posted improved revenues in 2005, up 5.1% compared with 2004. The slight decrease in StudioCanal sales (down 3.4% at €381 million) reflected the termination of non-profitable businesses, particularly in-house film production.

Pay-TV operations in Poland performed strongly in 2005 (up 28% at €193 million) mainly due to an increased subscription portfolio.

EBITA

The Canal+ Group's 2005 earnings from operations were €203 million, up 8.0% compared with 2004.

Pay-TV in France

Portfolio growth and price increases achieved in 2004 led to increased revenues in 2005, both from Canal+ and CanalSat.
Higher marketing costs due to record gross subscriber additions (1.1 million gross additions, up 13% compared with 2004) and the start of the new contract for exclusive broadcasting of League 1 soccer are reflected in 2005 EBITDA.

Other core operations

Other Canal+ Group operations showed sharp increases in EBITA due to higher subscriptions to pay-TV in Poland and to StudioCanal primarily as a result of the Working Title deal.

Cash flow from operations (CFFO)

Cash flow from operations was €285 million in 2005, compared to €674 million in 2004. This decrease was due to (i) the decrease of EBITDA reflecting strong investments made in exclusive content and recruitment cost increases linked to the higher subscription base, and (ii) to negative working capital changes mainly due to calendar impacts. In addition, 2004 cash flow from operations included the positive impact of the divestiture of the company's Paris headquarters at Quai André Citroën, for €108 million (including fees).

4.3.4 SFR (56% VIVENDI ECONOMIC INTEREST):

	Year ended December 31,				
	As published			Comparable basis (unaudited) (a)	As published
(in millions of euros, except for margins)	2006	2005	% change	% change	2004
Revenues					
Network revenues	8,254	8,220	0.4%	0.4%	6,837 (b)
Equipment sales, net	333	348	-4.3%	-4.3%	286
Other (including connection fees)	91	119	-23.5%	-27.2%	69
Total SFR	**8,678**	**8,687**	**-0.1%**	**-0.2%**	**7,192**
EBITA	**2,583**	**2,422**	**6.6%** (c)	**6.6%**	**2,332**
EBITA / Revenues (%)	***29.8%***	***27.9%*** (c)	***+1.9 pt***	***0.0%***	***32.4%***
Modified EBITDA	**3,449**	**3,209**	**7.5%** (c)	**7.5%**	**3,078**
Capital expenditures, net (Capex, net)	**1,133**	**923**	**22.8%**		**776**
Cash flow from operations (CFFO)	**2,430**	**2,268**	**7.1%**	**7.1%**	**2,242**
Customers (end of period, in thousands) (d)					
Postpaid	11,618	10,880	6.8%		9,601
Prepaid	6,265	6,318	-0.8%		6,219
Total SFR trade name	**17,883**	**17,198**	**4.0%**		**15,820**
Wholesale customers total base	728	119	na*		-
Total SFR network	**18,611**	**17,317**	7.5%		**15,820**
3G customers (in thousand)	2,686	1,003	x2,7		19
Market share (customer base) (d)/(e)	*34.6%*	35.8%	-1,2 pt		35.5%
ARPU (in euros / year) (f)					
Postpaid	596	648	-8.0%		603
Prepaid	202	218	-7.3%		183
Total	**455**	**485**	**-6.2%**		**432**
Data ARPU (in euros / year)	**61**	**59**	**3.4%**		**50**
AUPU (in minutes / year) (g)	**327**	**296**	**10.5%**		**268**
Churn rate (in % / year)					
Postpaid	14%	12%	+2 pts		14%
Total SFR customers	24%	23%	+1 pt		24%
Text message (in billion)	6.3	5.4	17.4%		4.5
Media messaging (in million)	168	98	70.8%		37
Data revenues compared to total revenues (in %)	12.9%	11.7%	+1.2 pt		9.6%
Acquisition of postpaid customers (euro per acquisition)	193 (e)	174	10.9%		183
Acquisition of prepaid customers (euro per acquisition)	23	24	-4.2%		25
Cost of acquisition compared to total revenues (in%)	6.1%	6.3%	-0.2 pt		7.1%
Cost of retention compared to total revenues (in%)	4.8%	5.3%	-0.5 pt		5.3%

na: not applicable*

(a) Comparable Basis mainly includes the full consolidation of ownership in distribution subsidiaries since January 1, 2005.
(b) Revenues does not include mobile-to –mobile termination revenues that are booked since January 1, 2005
(c) Includes €115 million of negative non recurring items in 2005. Excluding these items, the growth of EBITA should reach 1.8% and 3.8% for EBITDA.
(d) Source: ARCEP.
(e) SFR excluding wholesale customer total base.
(f) ARPU (Average Revenue Per User) is defined as revenues net of promotions and net of third-party content provider revenues excluding roaming revenues and equipment sales divided by the average ARCEP total customer base for the last twelve months. 2004 ARPU is calculated excluding estimated mobile-to-mobile sales.
(g) AUPU (Average Usage Per User) is defined as the incoming and outgoing "voice" volumes divided by average ARCEP total customer base for the last twelve months.

2006 versus 2005

Revenues

SFR revenues slightly decreased by 0.1% to €8,678 million compared to the same period in 2005 (down 0.2% on a comparable basis). Network revenues were up 0.4% on a comparable basis at €8,254 million. Despite ongoing growth in mobile voice usage per customer (which grew over 10%), the cut of regulated tariffs imposed by the regulator, coupled with strong competition, weighed very strongly on the growth of the French mobile market. Favorable effects of the increase in the customer base along with the growth in "voice" and "data" usage were more than offset by, firstly, the cut in the price charged to customers and, secondly, the cut of regulated tariffs (a 24% cut of mobile voice termination rates at the beginning of 2006 and a 19% cut of SMS termination at the beginning of 2006, followed by an additional 30% cut mid-September). SFR ARPU decreased by 6.2% to €455 at the end of December 2006 (versus €485 at the end of December 2005). Excluding the impacts of the regulated tariff cut, SFR revenues would have been up by 4.3%.

In 2006, SFR added 685,000 net new customers, taking its registered customer base to 17.883 million[7], a 4.0% increase versus last year. The contract customer base grew by 6.8% year-on-year to 11.618 million (738,000 net additions), leading to an improved customer mix of 1.7 percentage points in one year. SFR's 3G customer base reached 2.686 million at the end of December 2006, compared to 1.003 million at the end of December 2005.

Average voice usage of SFR customers (AUPU) continued its strong growth of 10.5% on a year-on-year basis to reach 327 minutes per month at the end of December 2006.

Net data revenues improved significantly primarily due to interpersonal services (SMS and MMS), content (music, TV-Videos, games) and corporate segment operations. Net data revenues represented 12.9% of network revenues at the end of December 2006, compared to 11.7% in 2005. In 2006, the data revenues grew 10.4% despite a cut in regulated tariffs as mentioned above.

The number of text messages (SMS) sent by SFR customers grew by 17.4% on a year-on-year basis to 6.3 billion and multimedia messaging services (MMS) grew by 70.8% on a year-on-year basis to 168 million. SFR's other data services also strongly increased over the year. The SFR Music portal is one of the top 3 leading legal music downloading platforms in France, with almost 4 million downloads in 2006, compared to 655,000 in 2005. In addition, more than 14 million TV Video programs and 4 million games were downloaded from SFR in 2006, with more than 600 games available for downloading.

In corporate services, 2006 was marked by strong sales mainly due to the 69% increase in sales of PC Mobile Connect Card and the 86% growth in Blackberry® Mobile Messaging services.

EBITA

SFR's EBITA rose 6.6% to € 2,583 million. EBITA margin was 29.8%. Excluding the impact of ADSL operations development costs, SFR'S EBITA growth reached 7.3%. Excluding non recurring items[8], SFR's EBITA (excluding ADSL) growth would have been 2.4%.

This growth mainly reflected a 0.4% growth in network revenues, a 0.7 percentage point reduction in customer acquisition and retention costs to 10.9% of network revenues, as well as a strict control of other costs, and despite the increase of the GSM license cost (renewed in April 2006 with a new tax of 1% of revenues) and an increase in depreciation costs following several years of strong investments to increase coverage and capacity of SFR's 2G and 3G/3G+ networks.

Cash flow from operations (CFFO)

In 2006, cash flows from operations amounted to €2,430 million, representing a 7.1% increase versus 2005. This increase was mainly due to EBITDA growth, excluding non recurring items (+3.8% at €3,449million), and was achieved despite the increase in capital expenditure, net of disposals (+22.8% at €1,133 million).

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[7] SFR excluding wholesale customers total base (wholesale customer base reached 728,000 at the end of December 2006).

[8] In 2005, EBITA included €115 million of adverse non-recurring items, consisting of a €220 million fine from the French Antitrust Council which was partly offset by the registering of favorable non-recurring items amounting to €105 million.

2005 versus 2004

Revenues

SFR revenues increased by 20.8% to € 8,687 million (8.1% excluding mobile-to-mobile termination revenues), mainly reflecting mobile-to-mobile termination revenues since January 1, 2005 (€909 million with respect to the fiscal year 2005) and the-year-on year increase in the customer base combined with a stable blended ARPU despite the 16.3% reduction in the fixed incoming voice termination rate on January 1, 2005.

SFR demonstrated continuing commercial dynamism throughout the twelve months of 2005 with 1.378 million net new customers taking its registered customer base to 17.198 million, an 8.7% increase versus 2004. The postpaid customer base grew by 13.3% year on year to 10.880 million, with more than 90% of new customers being postpaid customers.

Blended annual ARPU excluding mobile-to-mobile termination remained stable at €429, despite the fixed incoming voice rate cut, benefiting from the improved customer mix at 63.3% of postpaid (versus 60.7% in 2004) and the 10.5% increase of the blended average voice usage per customer (AUPU) to 296 minutes per month. Including mobile-to-mobile termination blended annual ARPU would have reached €485.

These results highlighted the success of SFR's strategy which aimed to substitute fixed voice usage with mobile voice usage and to develop new services around music and TV. This was made possible due to additional voice capacity and speed brought by SFR investments in the 3G technology along with major strategic agreements with various content providers, including CanalSat in June, UMG in July, and FIFA in November.

SFR achieved excellent results with 3G, topping 1,003,000 3G customers at the end of December 2005. SFR's 3G success can also be seen in the usage patterns of its 3G customers: for example, 340,000 songs were downloaded in the month of December 2005 alone, placing SFR in the top 5 of legal music download platforms in France in 2005.

Net data revenues improved significantly (up 27.7%) to represent 11.7% of network revenues (13.2% excluding mobile-to-mobile termination) for the year 2005, compared to 9.6% at the end of December 2004. This increase is mainly due to the 21% increase in text messaging (SMS) to 5.4 billion SMS, to the increase by a multiple of 2.6 of MMS to 98 million and to the further penetration of Vodafone *Live!* SFR had 4,785,000 customers to the mobile multimedia services portal in 2005, compared to 2,230,000 at the end of December 2004. This contributed to an 18% growth in net data ARPU to €59.

EBITA

SFR's EBITA rose by 3.9% to €2,422 million. This increase mainly reflected a 20.2% growth in network revenues (6.9% excluding mobile-to-mobile termination), a slight increase of 0.8 percentage point in customer acquisition and retention costs – due to the penetration of 3G devices in SFR base – to 11.6% of network revenues (13.2% excluding mobile-to-mobile termination), and the strict control of other costs. EBITA was also impacted by the recording of €115 million of adverse non-recurring items, consisting of a €220 million fine from the French Antitrust Council which was partly offset by the recording of favorable non-recurring items amounting to €105 million.

Cash flow from operations (CFFO)

SFR's cash flow from operations increased slightly by 1.2% to €2,268 million, EBITDA growth being negatively impacted by a 18.9% increase in capital expenditure, net of disposals, notably due to investments made for the ongoing roll-out of the GSM and UMTS networks.

4.3.5 Maroc Telecom (51% Vivendi economic interest):

(in millions of euros, except for margins)	Year ended December 31, As published 2006	2005	% change	% change at constant currency	2004
Revenues					
Mobile	1,333	1,156	15.3%	15.1%	879
Fixed and Internet	1,145	1,082	5.8%	5.6%	1,011
Elimination of intercompany transactions	(425)	(378)	na*	na*	(309)
Total Maroc Telecom	**€ 2,053**	**€ 1,860**	**10.4%**	**10.2%**	**€ 1,581**
EBITA	**€ 912**	**€ 786**	**16.0%**	**15.8%**	**€ 686**
EBITA / Revenues (%)	***44.4%***	***42.3%***	***+2.1 pts***		***43.4%***
Modified EBITDA	**€ 1,194**	**€ 1,056**	**13.1%**	**12.9%**	**€ 944**
Capital expenditures, net (Capex, net)	**255**	**238**	**7.1%**		**€ 187**
Cash flow from operations (CFFO)	**943**	**755**	**24.9%**		**€ 707**
Mobile (a)					
Number of customers (end of period, in thousands) (b)	**10,707**	**8,237**	30.0%		**6,306**
% of prepaid customers	*96%*	*96%*			*96%*
Market share (as per ANRT)	**67%**	**67%**			**68%**
ARPU (in euros / month) (c)					
Postpaid	63.8	64.3	-0.8%		71.8
Prepaid	7.9	8.8	-10.2%		8.7
Total	**10.1**	**11.1**	**-9.0%**		**11.3**
Churn rate (in % / year)					
Postpaid	13%	14%	-1 pt		16%
Prepaid	21%	12%	+9 pts		11%
Total	**20%**	**12%**	**+8 pts**		**12%**
Fixed and Internet (in thousands) (a)					
Number of lines (d)					
Residential	813	885	-8.1%		890
Public phone (e)	157	164	-4.3%		136
Professional and corporate	296	292	1.4%		283
Total	**1,266**	**1,341**	**-5.6%**		**1,309**
Number of Internet subscribers	**391**	**252**	**55.2%**		**105**
Number of ADSL subscribers	384	242	58.7%		60

na = not applicable*

(a) Excludes Mauritel

(b) The customer base, compliant with the ANRT, is calculated since the beginning of 2006, as the sum of prepaid customers giving or receiving a voice call during the last 3 months and the number of active postpaid customers. Information provided for 2004 and 2005 is consistent.

(c) ARPU (Average Revenue Per User) is defined as revenues (from incoming and outcoming calls and data services), net of promotions, excluding roaming revenues and equipment sales, divided by the average customer base over the period.

(d) Excludes Internet customers.

(e) Includes "Téléboutique" lines and Maroc Telecom's public phones.

2006 versus 2005

Revenues

Maroc Telecom's revenues of €2,053 million increased by 10.4% (+10.2% at constant currency) due to the strong performance of all its business activities.

Mobile revenues

2006 mobile revenues grew by 15.3% to €1,333 million (+15.1% at constant currency). The strong growth of the customer base which reached 10.7 million customers (+30% and a net increase of 2.47 million customers over the year) explains this growth in mobile revenues. The blended ARPU reached €10.1 (-9.3% compared to December 2005 at constant currency) due to the strong increase of the customer base and the decrease of the average price of communication. With the sharp increase of the customer base and the decrease of access fees, the churn rate reached 20% (+8 points year on year).

2006 fixed and internet revenues grew by 5.8% to €1,145 million (+5.6% at constant currency). In particular, this result was due to the dynamism of the public telephony segment (revenue grew by almost 15%), to the growth of incoming international traffic (+11%), to the continuing success of broadband activity and to the development of data services to business and operators with revenue growing by 13%. In this context, the voice average monthly invoice increased by almost 3%.

Fixed and internet revenues

The fixed customer base decreased to 1.266 million lines (-5.6% compared to December 2005). The ADSL customer base experienced strong growth and reached 384,000 lines (+58.7% compared to December 2005).

In September 2006, to serve its existing customers and attract new ones, Maroc Telecom launched new unlimited offers on its fixed telephony segment, which allow customers to call all local and national Maroc Telecom fixed numbers with no limit of time. The success of these offers led to the stabilization of the customer base over the last quarter.

EBITA

Maroc Telecom's EBITA amounted to €912 million, increasing by 16% (+15.8% at constant currency). This performance resulted from growth in revenue (10.2% at constant currency), control of acquisition costs in the context of steady growth of the mobile and ADSL customer base, as well as control of operational expenses.
This outcome also includes a € 30 million provision for a new voluntary departure plan (comparable to the provision accrued in 2005).

Mobile EBITA amounted to €627 million in 2006 increasing by 28.3% (+28.1% at constant currency).

Fixed telephony and internet EBITA totaled €285 million in 2006 decreasing by 4.1% (-4.4% at constant currency).

Cash flow from operations (CFFO)

As of December 31, 2006, cash flow from operations amounted to €943 million, representing a 24.9% increase compared to December 31, 2005. EBITDA growth of €138 million and the improvement of the change in working capital of €28 million, as well as the decrease of restructuring costs paid (€40 million) were partially offset by the increase in capital expenditures, net of disposals (€17 million), linked to investments made in network equipment to face the evolution of the mobile and Internet customer base, as well as the royalty payments on the 3G license granted in 2006.

2005 versus 2004

Revenues

Maroc Telecom's revenues of €1,860 million increased by 17.6% compared to 2004 (up 18.2% at constant currency on a comparable basis) due to the performance of mobile and internet businesses.

Mobile

Mobile revenues of €1,156 million increased by 31.5% compared to 2004 (a 32.1% increase at constant currency). Excluding the impact of the increase in incoming international interconnection tariffs applied by ANRT as of January 1, 2005, revenues increased by 25.8% (a 26.5% increase at constant currency).

This increase is primarily due to the continuing growth of the customer base (8.2 million customers, up 30.6% compared to 2004), with a net increase in the customer base of more than 1.9 million since the beginning of 2005. The blended monthly ARPU stood at €11.1 (versus €11.3 in 2004). The churn rate was 12.2% (compared to 11.6% in 2004).

Fixed and internet

Fixed telephony and internet revenues of €1,082 million represented a 7.0% increase compared to 2004 (a 7.4% increase at constant currency). This increase was due to the growth of the fixed customer base and of broadband internet activity and to the continuing growth of incoming international traffic, which offset the decrease in the average invoice per customer.

The fixed customer base reached 1.34 million lines at the end of 2005 (a 2.4% increase compared to the end of 2004). As a result of the monthly fee decrease as of March 2005 and year-end promotions, the ADSL customer base continued its development to approximately 242,000 subscribers at the end of December 2005, versus approximately 60,000 at the end of December 2004.

EBITA

Maroc Telecom's EBITA amounted to €786 million, increasing by 14.6% compared to 2004 (+14.9% at constant currency basis). Excluding the non-recurring negative impacts of the voluntary leaving plan introduced at the end of 2004, growth in EBITA would have been +16.5% at constant currency.

Cash flow from operations (CFFO)

The 2005 cash flow from operations was €755 million, increasing by 6.8% compared to the same period in 2004. The increase in EBITDA (+€112 million) was more than offset by the increase in capital expenditures, net of disposals (+ €51 million) partly linked to investments made in network equipment to respond to the evolution of the mobile and broadband internet customer base.

4.3.6 HOLDING & CORPORATE:

2006 versus 2005

EBITA

Holding & Corporate EBITA amounted to -€113 million representing a €82 million improvement compared to 2005. This improvement is mainly due to the favourable impact of €56 million resulting from the actions undertaken as part of the risk management of retirement pension obligations (please refer to Section 1.1.8).

EBITDA amounted to -€109 million in 2006 compared to -€149 million in 2005.

Cash flow from operations (CFFO)

CFFO amounted to -€279 million in 2006 compared to -€241 million in 2005, representing a downturn of -€38 million. In 2006, CFFO particularly included the cash outlay of -€152 million with respect to US benefit plan transfers.

2005 versus 2004

EBITA

EBITA amounted to -€195 million at the end of December 2005, down 1% when compared to 2004. Continuing efforts to control costs at the Paris headquarters and New York office as well as lower cost amortization of stock options due to their declining profile over time were slightly offset by higher one-time items as well as increased pension costs.

EBITDA amounted to -€149 million in 2005, compared to -€181 million in 2004.

Cash flow from operations (CFFO)

Cash flow from operations was -€241 million in 2005, compared to -€387 million in 2004. In 2004, it notably included €194 million paid to a third party for the transfer of all Vivendi's residual obligations to Veolia Environnement for network renewal costs.

4.3.7 NON CORE OPERATIONS:

	As published		
	Year ended December 31,		
(In millions of euros)	2006	2005	2004
Revenues			
Vivendi Telecom International (VTI)	€ 5	€ 6	€ 125
Other operations	€ 24	€ 55	€ 86
Non core operations	29	61	211
Elimination of inter segment transactions	(105)	(110)	(125)
Total revenues	**(76)**	**(49)**	**86**
EBITA	**€ 54**	**€ 33**	**€ 88**
Cash flow from operations (CFFO)	**€ 14**	**€ 17**	**€ 24**

2006 versus 2005

Revenues

Non core revenues amounted to €29 million (compared to €61 million in 2005) and mainly consisted of revenues from Vivendi Valorisation recognized in other operations. The decrease in revenues compared to 2005 related to the change in the scope of consolidation.

EBITA

Non core EBITA amounted to €54 million (compared to €33 million in 2005) representing a €21 million increase mainly resulting from the disposal of assets by Vivendi Valorisation recognized in 2006.

2005 versus 2004

Revenues

Revenues from non core operations amounted to €61 million and were mainly comprised of Vivendi Valorisation revenues, accounted for in "Other operations". In 2004, VTI's revenues included €118 million generated by Kencell (divested in May 2004) and Monaco Telecom (divested in June 2004).

EBITA

EBITA of non core operations declined strongly due to scope changes in 2004, please refer to Section 1.4.

5 Liquidity Management and Capital Resources in 2006 and 2005

The analysis of Vivendi's financial position is based on the analysis of changes in the Group's Financial Net Debt, as defined hereafter (please refer to the preliminary comment below), and the Consolidated Statement of Cash Flows. Cash flow information is useful to users of financial statements as it provides a basis for assessing Vivendi's ability to generate cash and its use of this cash. The Statement of Cash Flows, when used in conjunction with the other financial statements, provides information that enables users to assess changes in the Group's net assets and its financial structure (including its liquidity and solvency). The Statement of Cash Flows reports cash flows resulting from operating, investing and financing activities. The analysis of Vivendi's financial position is also based on an analysis of the main characteristics of the Group's financing activities (maturity, rating, financial covenants, etc.). This analysis consists of the following elements:

- **Changes in Financial Net Debt (Section 5.1);**
- **Analysis of operating activities (Section 5.2);**
- **Analysis of investing activities (Section 5.3);**
- **Analysis of financing activities (Section 5.4); and**
- **Main financing characteristics (Section 5.5).**

Preliminary comment:

- Vivendi considers Financial Net Debt, a non-GAAP measure, to be an important indicator measuring Vivendi's indebtedness. Financial Net Debt is calculated as the sum of long-term and short-term borrowings and other long-term and short-term financial liabilities as reported on the Consolidated Statement of Financial Position, less cash and cash equivalents as reported on the Consolidated Statement of Financial Position as well as derivative financial instruments in assets and cash deposits backing borrowings (included in the Consolidated Statement of Financial Position under "financial assets"). Financial Net Debt should be considered in addition to, not as a substitute for, Vivendi's borrowings and other financial liabilities and cash and cash equivalents reported on the Consolidated Statement of Financial Position, as well as other measures of indebtedness reported in accordance with GAAP. Vivendi Management uses Financial Net Debt for reporting and planning purposes, as well as to comply with certain of Vivendi's debt covenants. Please refer to Section 5.5.

- In addition, cash (and cash equivalents) is not fully available for debt repayments since it is used for several purposes, including but not limited to, acquisitions of businesses, capital expenditures, dividends, contractual obligations, and working capital.

- Vivendi S.A.'s cash flow on a consolidated basis is not available in full to Vivendi at the parent company level. In particular, Maroc Telecom and SFR, which are less than wholly-owned, are unable to pool their cash with Vivendi and must pay a portion of any dividends to other shareholders. In addition, the ability of Vivendi's subsidiaries to make certain distributions may also be limited by financial assistance rules, corporate employer benefit laws and other legal restrictions which, if violated, might require the recipient to refund unlawful payments.

5.1 Changes in Financial Net Debt

As of December 31, 2006, Financial Net Debt amounted to €4,344 million compared to €3,768 million as of December 31, 2005 and €4,724 million as of December 31, 2004. Financial Net Debt includes borrowings amounting to €7,206 million as of December 31, 2006, compared to €6,567 as of December 31, 2005 and 6,219 as of December 31, 2004. As of December 31, 2006, cash and cash equivalents amounted to €2,400 million compared to €2,902 million as of December 31, 2005 and €3,159 million as of December 31, 2004.

(In millions of euros)	December 31, 2006 Borrowings	Commitments to purchase minority interests	Derivative financial instruments and other (a)	Financial Net Debt
Borrowings and other financial liabilities				
. Long-term	€ 4,630	€ 43	€ 41	€ 4,714
. Short-term	€ 2,576	€ 14	€ 11	2,601
Derivative financial instruments in assets			(52)	(52)
Collateralized cash received form Lagardère			(469)	(469)
Cash deposits backing borrowings			(50)	(50)
	€ 7,206	**€ 57**	**€ (519)**	**€ 6,744**
Cash and cash equivalents				(2,400)
Financial Net Debt				**€ 4,344**

(In millions of euros)	December 31, 2005 Borrowings	Commitments to purchase minority interests	Derivative financial instruments and other (a)	Financial Net Debt
Borrowings and other financial liabilities				
. Long-term	€ 4,442	€ 39	€ 64	€ 4,545
. Short-term	€ 2,125	€ 69	€ 21	2,215
Derivative financial instruments in assets			(29)	(29)
Cash deposits backing borrowings			(61)	(61)
	€ 6,567	**€ 108**	**€ (5)**	**€ 6,670**
Cash and cash equivalents				(2,902)
Financial Net Debt				**€ 3,768**

(In millions of euros)	December 31, 2004 Borrowings	Commitments to purchase minority interests	Derivative financial instruments and other (a)	Financial Net Debt
Borrowings and other financial liabilities				
. Long-term	€ 4,497	€ 414	€ 446	€ 5,357
. Short-term	€ 1,722	€ 1,103	€ 17	2,842
Derivative financial instruments in assets			(257)	(257)
Cash deposits backing borrowings			(59)	(59)
	€ 6,219	**€ 1,517**	**€ 147**	**€ 7,883**
Cash and cash equivalents				(3,159)
Financial Net Debt				**€ 4,724**

(a) "Other" corresponds to cash deposits backing borrowings.

As a reminder, as of December 31, 2004, financial liabilities mainly consisted of commitments to purchase minority interests given by Vivendi to the Kingdom of Morocco for its 16% stake in Maroc Telecom (€1,100 million) and given by SFR to SNCF for its 35% stake in Cegetel S.A.S. (€304 million), as well as derivative financial instruments (€463 million). In accordance with IFRS, Financial Net Debt includes these financial liabilities, which are reported on the same line as borrowings in the Consolidated Statement of Financial Position.

In 2006, Financial Net Debt increased by €576 million mainly due to the use of cash for-€502 million (including a negative foreign currency translation impact of -€28 million) and the effect of non-cash investing and financing activities of -€74 million (including a positive foreign currency translation impact of €56 million).

- Net cash provided by operating activities amounted to €4,425 million.

- Net cash used for investing activities amounted to -€3,420 million. Taking into account the favorable impact of non-cash transactions which amounted to €567 million, the effect of investing activities on Financial Net Debt amounted to €2,853 million. Non-cash transactions mainly consisted of a cash collateral in the amount of €469 million established by Vivendi as part of the disposal of 9.82% of Canal+ France to Lagardère in December. As of December 31, 2006, the cash collateral is recognized as a

short-term financial asset and, given its termination on January 4, 2007, it is considered as a reduction of Financial Net Debt.

- Net cash used for financing activities amounted to -€1,479 million and includes (i) cash outflows of -€2,110 million, reflecting cash used for the payment of dividends by Vivendi S.A. to its shareholders and the payment of dividends by consolidated subsidiaries to their minority shareholders partially offset by cash received from other transactions with shareholders (such as share capital subscriptions or the purchase of treasury shares) and (ii) cash inflows from refinancing transactions amounting to €631 million consisting of net cash provided by the setting up/reimbursement of borrowings for €798 million offset by cash used for interest payments on borrowings and other financial activities for -€167 million. After taking into account the unfavorable impact of non-cash transactions, the effect of financing activities on Financial Net Debt amounted to -€2,176 million.

(In millions of euros)	refer to section	Cash and cash equivalents	Borrowings and other (a)	**Impact on Financial Net Debt**
Financial Net Debt as of December 31, 2005		**€ (2,902)**	**€ 6,670**	**€ 3,768**
Net cash (provided by) / used for :				
Operating activities	5.2	(4,425)	-	(4,425)
Investing activities	5.3	3,420	(567)	2,853
Financing activities	5.4	1,479	697	2,176
Foreign currency translation adjustments		28	(56)	(28)
Change in Financial Net Debt over the year ended December 31, 2006		€ 502	€ 74	€ 576
Financial Net Debt as of December 31, 2006		**€ (2,400)**	**€ 6,744**	**€ 4,344**

(a) "Other" comprises commitments to purchase minority interests, derivative financial instruments and cash deposits backing borrowings.

In 2005, Financial Net Debt decreased by €956 million mainly due to the use of cash for -€257 million (including a positive currency translation impact of €37 million) more than offset by the favorable effect of non-cash investing and financing activities of €1,213 million (including a negative foreign currency translation impact of -€41 million).

- Net cash provided by operating activities amounted to €3,670 million.

- Net cash used for investing activities amounted to -€2,225 million. Taking into account the favorable impact of non-cash transactions which amounted to €1,402 million, the effect of investing activities on Financial Net Debt amounted to -€823 million. Non-cash transactions included a commitment to purchase minority interests given by Vivendi to the Kingdom of Morocco for an additional 16% stake in Maroc Telecom (€1,100 million), which was reversed in January 2005 following the completion of the acquisition.

- Net cash used for financing activities amounted to -€1,739 million and includes (i) cash outflows of -€1,723 million, reflecting cash used for the payment of dividends by Vivendi S.A. to its shareholders and the payment of dividends by consolidated subsidiaries to their minority shareholders partially offset by cash received from other transactions with shareholders (such as share capital subscriptions or the purchase of treasury shares) and (ii) cash outflows from refinancing activities amounting to -€16 million consisting mainly of net cash provided by the setting up/reimbursement of borrowings for €687 million offset by cash used for interest payments on borrowings and other financial activities for -€703 million. Taking into account the unfavorable impact of non-cash transactions which amounted to -€148 million and corresponded to the change in the fair value of financial derivative instruments, the effect of financing activities on Financial Net Debt amounted to -€1,887 million.

(In millions of euros)	refer to section	Cash and cash equivalents	Borrowings and other (a)	**Impact on Financial Net Debt**
Financial Net Debt as of December 31, 2004		**€ (3,159)**	**€ 7,883**	**€ 4,724**
Net cash (provided by) / used for :				
Operating activities	5.2	(3,670)	-	(3,670)
Investing activities	5.3	2,225	(1,402)	823
Financing activities	5.4	1,739	148	1,887
Foreign currency translation adjustments		(37)	41	4
Change in Financial Net Debt over the year ended December 31, 2005		257	(1,213)	(956)
Financial Net Debt as of December 31, 2005		**€ (2,902)**	**€ 6,670**	**€ 3,768**

(a) "Other" comprises commitments to purchase minority interests, derivative financial instruments and cash deposits backing borrowings.